Lakeridge Health

Financial Statements
March 31, 2015

June 19, 2015

Independent Auditor's Report

To the Members of the Resources Committee of the Board of Trustees Lakeridge Health

We have audited the accompanying financial statements of Lakeridge Health, which comprise the statement of financial position as at March 31, 2015 and the statement of operations, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and the related notes, which comprise 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 the 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakeridge Health as at March 31, 2015 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..

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Lakeridge Health

Statement of Financial Position

As at March 31, 2015

(in thousands of dollars)

	2015 $	2014 $
Assets		
Current assets		
Cash (note 3)	150,075	132,496
Accounts receivable (note 4)	13,854	16,952
Inventories	4,081	3,036
Prepaid expenses	1,938	2,453
	169,948	154,937
Restricted funds		
Redevelopment (note 3)	-	1,287
Energy retrofit (note 3)	4,706	10,250
Other long-term assets	1,227	-
Capital assets (note 5)	444,016	428,843
	619,897	595,317
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	87,890	97,379
Deferred capital contributions - capital advances (note 6)	11,295	6,246
Deferred research contributions	4,391	3,925
Deferred contributions - other	5,779	5,535
Long-term debt (note 8)	3,045	2,957
	112,400	116,042
Long-term debt (note 8)	46,584	48,950
Employee future benefit liability (note 9)	13,106	12,358
Derivative liability (note 7)	3,707	3,142
Long-term deferred contributions - others	1,227	-
Deferred capital contributions (note 6)	340,371	340,814
	517,395	521,306
Net Assets	101,947	72,891
Accumulated remeasurement gains	555	1,120
	102,502	74,011
	619,897	595,317

Approved on Behalf of the Board of Directors

Donna Kingelin Director ______ Director

The accompanying notes are an integral part of these financial statements.

Lakeridge Health

Statement of Operations

For the year ended March 31, 2015

(in thousands of dollars)

	2015 $	2014 $
Revenue		
Ministry of Health and Long-Term Care (MoHLTC)	395,718	419,059
Patient services	28,327	28,436
Other	26,843	28,339
Specifically funded programs	18,217	18,373
Research grants	1,367	1,265
Amortization of deferred capital contributions	4,301	2,821
	474,773	498,293
Expenses		
Compensation and benefits	309,568	301,670
Supplies and other	54,622	57,814
Drugs	30,639	29,738
Medical and surgical supplies	20,461	21,495
Specifically funded programs	18,217	18,373
Amortization of capital assets	8,018	6,373
	441,525	435,463
Excess of revenue over expenses before building amortization and interest expense	33,248	62,830
Net building amortization and interest		
Amortization of deferred capital contributions	12,497	12,875
Amortization of buildings	(14,609)	(15,003)
Long-term interest	(2,080)	(2,058)
Excess of revenue over expenses for the year	29,056	58,644

The accompanying notes are an integral part of these financial statements.

Lakeridge Health

Statement of Remeasurement Gains

For the year ended March 31, 2015

(in thousands of dollars)

	2015 $	2014 $
Accumulated remeasurement gains - Beginning of year	1,120	213
Unrealized gains (losses) attributable to derivative liability	(565)	907
Accumulated remeasurement gains - End of year	555	1,120

The accompanying notes are an integral part of these financial statements.

Lakeridge Health

Statement of Changes in Net Assets

For the year ended March 31, 2015

(in thousands of dollars)

	2015				2014
	Invested in capital assets $ (note 10)	**Internally restricted $** (note 11)	**Unrestricted $**	**Total $**	**Total $**
Net assets - Beginning of year	36,122	238	36,531	72,891	14,247
Excess of revenue over expenses before amortization	-	-	34,885	34,885	64,324
Amortization of capital assets	(22,627)	-	-	(22,627)	(21,376)
Amortization of deferred capital contributions	16,798	-	-	16,798	15,696
	30,293	238	71,416	101,947	72,891
Purchase of capital assets, net of disposals (note 5)	37,800	-	(37,800)	-	-
Amounts funded from deferred contributions and restricted funds, less repayments of long-term debt	(14,078)	-	14,078	-	-
Net assets - End of year	54,015	238	47,694	101,947	72,891

The accompanying notes are an integral part of these financial statements.

Lakeridge Health

Statement of Cash Flows

For the year ended March 31, 2015

(in thousands of dollars)

	2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	29,056	58,644
Add (deduct): Non-cash items		
Amortization of capital assets	22,627	21,376
Amortization of deferred capital contributions	(16,798)	(15,696)
Employee future benefit expense (note 9)	1,540	1,591
	36,425	65,915
Net change in non-cash operating items (note 12)	(7,529)	(47,395)
Employee future benefits paid (note 9)	(701)	(631)
	28,195	17,889
Capital activities		
Purchase of capital assets (note 5)	(37,800)	(16,058)
Financing activities		
Proceeds of long-term debt	685	983
Repayment of long-term debt and equipment financing	(2,963)	(2,362)
Other long-term liabilities	1,227	-
Capital contributions (note 6)		
Short-term	5,049	4,268
Long-term	16,355	3,259
Net change in restricted cash	6,831	4,183
	27,184	10,331
Increase in cash during the year	17,579	12,162
Cash - Beginning of year	132,496	120,334
Cash - End of year (note 3)	150,075	132,496
Supplemental information		
Interest paid (note 8)	2,945	3,046

The accompanying notes are an integral part of these financial statements.

(in thousands of dollars)

1 The Corporation

Lakeridge Health (the Hospital) was formed on 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 ongoing 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 MoHLTC'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 Summary of 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 that 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.

(in thousands of dollars)

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

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
Energy retrofit	amortized cost
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Long-term deferred contributions - others	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

On 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 pro-rated on service and management’s best estimate of retirement ages of employees and expected heath-care costs.

(in thousands of dollars)

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.

3 Cash

	2015 $	2014 $
Cash		
Operations	150,075	132,496
Current		
Restricted funds		
Redevelopment	-	1,287
Energy retrofit	4,706	10,250
	154,781	144,033

As outlined in the Development Accountability Agreement entered into September 22, 2009 with the MoHLTC for the development of the Oshawa site, $1,287 was restricted through a deposit into a sinking fund. As at March 31, 2015, the redevelopment project was completed and the funds were transferred to operating cash.

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, 2015, $4,706 (2014 - $10,250) remained in trust.

4 Accounts receivable

	2015 $	2014 $
Ontario Ministry of Health and Long-Term Care	279	6,709
Insurers and patients	8,947	8,022
Foundations	357	390
Other	5,266	3,594
	14,849	18,715
Provision for uncollectible accounts	(995)	(1,763)
	13,854	16,952

(in thousands of dollars)

5 Capital assets

	Cost - Beginning of year $	Additions $	Cost - End of year $	Accumulated amortization - Beginning of year $	Amortization expense $	Accumulated amortization - End of year $	2015 Net $	2014 Net $
Land and land improvements	7,054	21	7,075	4,051	30	4,081	2,994	3,003
Buildings and building service equipment	542,362	3,515	545,877	155,401	14,654	170,055	375,822	386,961
Furniture and equipment	166,473	19,292	185,765	138,877	7,943	146,820	38,945	27,596
Construction-in-progress	11,283	14,972	26,255	-	-	-	26,255	11,283
	727,172	37,800	764,972	298,329	22,627	320,956	444,016	428,843

6 Deferred capital contributions

The current portion of deferred contributions represents the unspent amount of externally restricted contributions received for specific purposes and interest earned on these funds. Included in this balance are monies received from the MoHLTC and other funding agencies, which are either available for future use or subject to a settlement process with the funding agency.

Short-term

	2015 $	2014 $
Contributions received for capital purposes - current year		
MoHLTC - redevelopment	5,019	4,268
Transfer from long-term	30	(4,664)
Net increase (decrease) for the year	5,049	(396)
Balance - Beginning of year	6,246	6,642
Balance - End of year	11,295	6,246

(in thousands of dollars)

Long-term

	2015 $	2014 $
Contributions received for capital purposes - current year		
Foundations - redevelopment	1,816	2,001
Foundations - other	1,388	1,221
Other	13,181	37
Net increase for the year	16,385	3,259
Transfer to short-term	(30)	4,664
Less: Amortization	(16,798)	(15,696)
Net decrease for the year	(443)	(7,773)
Balance - Beginning of year	340,814	348,587
Balance - End of year	340,371	340,814

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 rate 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. The fair value of the interest rate swap at March 31, 2015 is $3,707 (2014 - $3,142). The change in fair value during the year of $565 is recorded in the statement of remeasurement gains.

8 Long-term debt

	2015 $	2014 $
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, will be paid in full as of December 31, 2016	1,878	2,834
Loan for the purpose of financing the construction of a Central Utilities Plant at one of the Hospital's facilities, bearing interest at a floating rate based on bankers' acceptance rate 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)	12,965	13,669
Fixed rate loan of $7,013 bearing interest at 5.07%, to finance approved capital redevelopment projects, repayable in monthly payments based on a 15-year amortization	3,616	4,088
Fixed rate loan of $12,500 bearing interest at 5.58%, acquired for expansion of the north parking garage at the Oshawa site, repayable based on a 25-year amortization with interest only payments for the first 5 years; principal payments commenced in January 2013	11,681	12,057

(in thousands of dollars)

	2015 $	2014 $
Fixed rate loan of $17,710 bearing interest at 5.25%, acquired for the retrofit of energy systems at the Hospital, repayable based on a 19-year term with the first payment scheduled to begin in January 2015	19,489	19,259
	49,629	51,907
Less: Amounts due within one year	3,045	2,957
	46,584	48,950

Interest expense on long-term debt was $2,080 (2014 - $2,058). Of this amount $685 (2014 - $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 $2,945 (2014 - $3,046).

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

	$
2016	3,045
2017	3,024
2018	2,371
2019	2,569
2020	2,808
Thereafter	32,767
	46,584

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:

	2015 $	2014 $
Employee future benefit liability		
Balance - Beginning of year	13,059	12,099
Employer current service cost	887	842
Prior service costs	-	132
Amortization of actuarial losses	71	71
Interest cost	582	546
Benefits paid	(701)	(631)
Balance - End of year	13,898	13,059

(in thousands of dollars)

	2015 $	2014 $
Short-term portion included in accrued liabilities	792	701
Long-term portion	13,106	12,358
	13,898	13,059
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	16,795	14,005
Unamortized experience losses	(2,897)	(946)
	13,898	13,059

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

	2015	2014
Discount rate to determine accrued benefit obligation	3.00%	4.00%
Dental cost increases	4.00%	4.00%
Extended health-care cost escalations, decreasing by 0.25% per annum to an ultimate rate of 5.0% in 2019 and thereafter	7.00%	7.25%
Expected average remaining service life of employees	15	15

10 Net assets invested in capital assets

	2015 $	2014 $
Capital assets (note 5)	444,016	428,843
Less: Amounts financed by		
Deferred capital contributions (note 6)	(340,371)	(340,814)
Long-term debt (note 8)	(49,629)	(51,907)
Other	-	-
	54,015	36,122

11 Internally restricted

The Hospital has restricted $170 (2014 - $170) for major capital refurbishment of the parking garage.

The Hospital has also restricted $68 (2014 - $68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

(in thousands of dollars)

12 Net change in non-cash operating items

	2015 $	2014 $
Decrease (increase) in assets		
Accounts receivable	3,098	1,947
Inventories	(1,045)	871
Prepaid expenses	515	(946)
Other long-term assets	(1,227)	-
	1,341	1,872
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(9,580)	(50,613)
Deferred research contributions	466	426
Deferred contributions - other	244	920
	(8,870)	(49,267)
	(7,529)	(47,395)

13 Lease commitments

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

	$
2016	930
2017	455
2018	61
	1,446

14 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 $18,125 (2014 - $17,686) 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.

(in thousands of dollars)

15 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:

- 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.

- 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 advisers 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 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.

16 Risk management

Credit risk

Credit risk relates to the potential that one party to a financial instrument will fail to discharge an obligation, thus resulting in the other party incurring a financial loss. The Hospital is exposed to credit risk on its accounts receivable.

(in thousands of dollars)

Interest rate risk

Interest rate risk relates to the potential for financial loss caused by fluctuations in the fair value or 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 the purpose of financing the construction of a central utilities plant. The Hospital mitigates interest rate risk on the loan through a derivative financial instrument that exchanges 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 of the Hospital.

17 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 (the 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 receivable from foundations related to capital are as follows:

	2015 $	2014 $
Lakeridge Health Foundation	249	358
The Memorial Hospital Foundation - Bowmanville	20	16
Port Perry Hospital Foundation	37	16
Lakeridge Health Whitby Foundation	51	1
	357	391

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.

18 Comparative figures

Certain prior year figures have been reclassified to conform to the current year's financial statement presentation.