Lakeridge Health

Financial Statements
March 31, 2020

Independent auditor's report

To the Members of the Board of Trustees of Lakeridge Health

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lakeridge Health (the Hospital) as at March 31, 2020 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.

What we have audited
The Hospital's financial statements comprise:

- the statement of financial position as at March 31, 2020;
- the statement of operations for the year then ended;
- the statement of remeasurement gains and losses for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

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Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Hospital's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hospital to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June 18, 2020

Lakeridge Health

Statement of Financial Position

As at March 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Assets		
Current assets		
Cash	144,107	78,493
Short-term investments (note 3)	50,000	50,000
Accounts and other receivables (note 4)	23,965	23,170
Inventories	5,136	4,409
Prepaid expenses	9,236	6,619
	232,444	162,691
Other long-term assets (note 5)	6,308	5,373
Capital assets (note 6)	577,926	573,639
	816,678	741,703
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	97,564	92,659
Deferred capital contributions – capital advances (note 7)	8,410	17,249
Deferred research contributions	4,960	5,500
Deferred contributions – other	5,320	5,344
Long-term debt (note 8)	3,027	2,815
	119,281	123,567
Long-term debt (note 8)	32,685	35,700
Debentures (note 9)	99,844	-
Employee future benefit liability (note 10)	21,647	20,120
Other long-term liabilities (notes 11 and 16)	6,339	5,885
Deferred capital contributions (note 7)	387,215	393,400
	667,011	578,672
Net Assets	147,087	160,440
Accumulated remeasurement gains	2,580	2,591
	149,667	163,031
	816,678	741,703

Approved on Behalf of the Board of Directors

M. Shaun Walker Director [signature] Director

Chair, Board of Trustees Treasurer, Board of Trustees

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

Lakeridge Health

Statement of Operations

For the year ended March 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Revenue		
Ministry of Health and Long-Term Care	547,240	529,524
Patient services	42,108	40,715
Other ancillary revenue and recoveries	52,285	45,545
Specifically funded programs	24,588	20,127
Research grants	2,356	2,279
Amortization of deferred capital contributions – equipment	5,559	5,388
	674,136	643,578
Expenses		
Compensation and benefits	469,019	444,125
Supplies and other	90,325	86,640
Drugs	49,512	41,493
Medical and surgical supplies	33,614	31,791
Specifically funded programs	24,618	20,135
Amortization of equipment	13,138	12,149
	680,226	636,333
(Deficiency) excess of revenue over expenses before building amortization and interest expense	(6,090)	7,245
Net building amortization and interest		
Amortization of deferred capital contributions – buildings	16,507	16,778
Amortization of buildings	(22,037)	(21,576)
Interest on long-term debt	(1,733)	(1,602)
(Deficiency) excess of revenue over expenses for the year	(13,353)	845

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

Lakeridge Health

Statement of Remeasurement Gains and Losses

For the year ended March 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Accumulated remeasurement gains – Beginning of year	2,591	2,446
Change in unrealized gains attributable to derivative liability	(11)	145
Accumulated remeasurement gains – End of year	2,580	2,591

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, 2020

(in thousands of dollars)

	2020				2019
	Invested in capital assets **$** (note 12)	**Internally restricted** **$** (note 13)	**Unrestricted** **$**	**Total** **$**	**Total** **$**
Net assets – Beginning of year	141,724	238	18,478	160,440	159,595
(Deficiency) excess of revenue over expenses before amortization	-	-	(244)	(244)	12,404
Amortization of capital assets	(35,175)	-	-	(35,175)	(33,725)
Amortization of deferred capital contributions	22,066	-	-	22,066	22,166
	128,615	238	18,234	147,087	160,440
Purchase of capital assets, net of disposals (note 6)	39,462	-	(39,462)	-	-
Amounts funded from deferred contributions and restricted funds, less repayments of long-term debt	(13,078)	-	13,078	-	-
Net assets (liabilities) – End of year	154,999	238	(8,150)	147,087	160,440

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

Lakeridge Health

Statement of Cash Flows

For the year ended March 31, 2020

(in thousands of dollars)

	2020 $	2019 $
Cash provided by (used in)		
Operating activities		
(Deficiency) excess of revenue over expenses for the year	(13,353)	845
Add (deduct): Non-cash items		
Amortization of capital assets (note 6)	35,175	33,725
Amortization of deferred capital contributions (note 7)	(22,066)	(22,166)
Employee future benefit expense (note 10)	2,877	2,179
	2,633	14,583
Net change in non-cash operating items (note 14)	(762)	(13,157)
Employee future benefits paid (note 10)	(1,321)	(1,157)
	550	269
Capital activities		
Purchase of capital assets (note 6)	(39,462)	(47,518)
Financing activities		
Repayment of long-term debt and equipment financing	(2,803)	(2,608)
Net proceeds of debenture issue	99,844	-
Other long-term liabilities	443	2,612
Capital contributions (note 7)		
Short-term	1,449	8,707
Long-term	5,593	8,137
	104,526	16,848
Investing activities		
Purchase of short-term investments	-	(50,000)
Increase (decrease) in cash during the year	65,614	(80,401)
Cash – Beginning of year	78,493	158,894
Cash – End of year	144,107	78,493
Supplemental information		
Interest paid (note 8)	2,072	2,172

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 (Canada). The Hospital is an amalgamation of Oshawa General Hospital, Memorial Hospital Bowmanville, North Durham Hospital Corporation and Whitby General Hospital. On November 30, 2016, the Hospital entered into an integration and transfer agreement with Rouge Valley Health System (RVHS) to receive upon transfer the assets, liabilities, employees and professional staff of RVHS's Ajax-Pickering 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 contribution. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts 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 those 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
Short-term investments	amortized cost
Accounts receivable	amortized cost
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 the 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	5 – 50 years
Furniture and equipment	3 – 15 years

On completion, costs in construction-in-progress are reclassified to the appropriate capital asset account 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 health-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 (the plan), which is a multi-employer, defined benefit pension plan. The Hospital has adopted defined contribution plan accounting principles for the plan because insufficient information is available to apply defined benefit plan accounting principles.

3 Short-term investments

In November 2018, the Hospital purchased a two-year redeemable guaranteed investment certificate with an effective interest rate of 3.0%. Interest is paid annually on the anniversary date.

4 Accounts and other receivables

	2020 $	2019 $
MoHLTC	485	379
Insurers and patients	9,885	10,843
Foundations (note 19)	1,556	1,203
Other	14,238	12,297
	26,164	24,722
Provision for uncollectible accounts	(2,199)	(1,552)
	23,965	23,170

5 Other long-term assets

	2020 $	2019 $
Healthcare Insurance Reciprocal of Canada (HIROC) deposits (note 17)	4,206	2,669
Other	2,102	2,704
	6,308	5,373

(in thousands of dollars)

6 Capital assets

	Cost – Beginning of year $	Additions $	Write-offs $	Cost – End of year $	Accumulated amortization – Beginning of year $	Write-offs $	Amortization expense $	Accumulated amortization – End of year $	2020 Net $	2019 Net $
Land and land improvements	10,792	-	-	10,792	4,307	-	50	4,357	6,435	6,426
Buildings and building service equipment	753,936	-	-	753,936	287,639	-	22,007	309,646	444,290	462,957
Furniture and equipment	303,893	-	(141,355)	162,538	232,163	(141,355)	13,118	103,926	58,612	82,853
Construction-in-progress	29,127	39,462	-	68,589	-	-	-	-	68,589	21,403
	1,097,748	39,462	(141,355)	995,855	524,109	(141,355)	35,175	417,929	577,926	573,639

Land and land improvements amortization of $50 is included in amortization of buildings on the statement of operations.

7 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

	2020 $	2019 $
Contributions received for capital purposes – current year		
MoHLTC – redevelopment	1,278	7,627
Foundation – redevelopment	171	1,080
Transfer to long-term	(10,288)	(9,017)
Net decrease for the year	(8,839)	(310)
Balance – Beginning of year	17,249	17,559
Balance – End of year	8,410	17,249

(in thousands of dollars)

Long-term

	2020 $	2019 $
Contributions received for capital purposes – current year		
Foundations	2,634	1,848
Other	2,959	6,289
Transfer from short-term	10,288	9,017
Net increase for the year before	15,881	17,154
Less: Amortization	22,066	22,166
Net decrease for the year	(6,185)	(5,012)
Balance – Beginning of year	393,400	398,412
Balance – End of year	387,215	393,400

8 Long-term debt

	2020 $	2019 $
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 11)	8,741	9,690
Fixed rate loan of $7,013 bearing interest at 2.5%, to finance approved capital redevelopment projects, repayable in monthly payments based on a 15-year amortization from the outset of the loan	706	1,348
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 five years; principal payments commenced in January 2013	9,459	9,954
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, the Hospital has a letter of credit amounting to $1,786 (2019 – $1,786)	16,806	17,523
	35,712	38,515
Less: Amounts due within one year	3,027	2,815
	32,685	35,700

Interest expense on long-term debt was $1,529 (2019 – $1,602). Interest paid during the year amounted to $2,072 (2019 – $2,172).

(in thousands of dollars)

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

	$
2021	3,027
2022	2,574
2023	2,797
2024	3,035
2025	3,291
Thereafter	20,988
	35,712

9 Debentures

On March 2, 2020, the Hospital issued $100 million of senior unsecured debentures at par with a 40-year term and an annual interest rate of 2.484%. Coupon interest payments are payable in equal semi-annual installments in September and March of each year. The amount owing at March 31 is $99,844, inclusive of accrued interest of $204 and net of bond issue costs of $360. The debentures are subject to certain covenants and redemption, principal repayment to occur at maturity. Proceeds will fund capital investment to support Hospital operations and for general corporate purposes.

10 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 on February 1, 2019.

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

	2020 $	2019 $
Employee future benefit liability		
Balance – Beginning of year	21,442	20,420
Employer current service cost	1,681	1,297
Amortization of actuarial losses	405	155
Interest cost	791	727
Benefits paid	(1,321)	(1,157)
Balance – End of year	22,998	21,442
Short-term portion included in accrued liabilities	1,351	1,322
Long-term portion	21,647	20,120
	22,998	21,442
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	27,245	26,275
Unamortized experience losses	(4,247)	(4,833)
	22,998	21,442

(in thousands of dollars)

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

	2020	2019
Discount rate to determine accrued benefit obligation	2.95%	2.90%
Dental cost increases	4.00%	4.00%
Extended health-care cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.50% in 2020 and thereafter	6.00%	6.00%
Expected average remaining service life of employees	14	14

11 Other long-term liabilities

	2020 $	2019 $
Fair value adjustment in respect of derivative liability	1,682	1,671
HIROC liability (note 17)	2,556	1,511
Other	2,101	2,703
	6,339	5,885

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 a 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 as at March 31, 2020 is $1,682 (2019 – $1,671). The change in fair value during the year of $11 (2019 – $145) is recorded in the statement of remeasurement gains.

12 Net assets invested in capital assets

	2020 $	2019 $
Capital assets (note 6)	577,926	573,639
Less: Amounts funded by		
Deferred capital contributions (note 7)	387,215	393,400
Long-term debt (note 8)	35,712	38,515
	154,999	141,724

13 Internally restricted

The Hospital has restricted $170 (2019 – $170) for major capital refurbishment of the parking garage.

(in thousands of dollars)

The Hospital has also restricted $68 (2019 – $68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

14 Net change in non-cash operating items

	2020 $	2019 $
Decrease (increase) in assets		
Accounts receivable	(795)	(797)
Inventories	(727)	(64)
Prepaid expenses	(2,617)	(2,929)
Other long-term assets	(935)	(3,133)
	(5,074)	(6,923)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	4,876	(5,616)
Deferred research contributions	(540)	-
Deferred contributions – other	(24)	(618)
	4,312	(6,234)
	(762)	(13,157)

15 Lease commitments

The Hospital is committed under operating leases for various facilities until 2035. Minimum payments due in each of the next five remaining years and thereafter of the leases are as follows:

	$
2021	1,396
2022	1,080
2023	948
2024	718
2025	727
Thereafter	5,218
	10,087

16 Pension plan

Substantially all of the employees of the Hospital are members of the plan, which is a multi-employer final average pay contributory pension plan. Employer contributions made to the plan during the year by the Hospital amount to $27,237 (2019 – $26,430) and are reflected as compensation and benefits in the statement of operations. The most recent actuarial valuation of the plan as at December 31, 2019 disclosed total going concern pension obligations of $73,547 in respect of service accrued to December 31, 2019 and a smoothed value of net assets of $87,181 determined at the same date.

(in thousands of dollars)

17 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 that 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.

- The Hospital is a member in HIROC and therefore has an economic interest in HIROC. HIROC is a pooling of the public liability insurance risks of its members, which are Canadian not-for-profit health-care organizations. All members of the HIROC pool pay annual premiums, which are actuarially determined. All members are subjects to assessment for losses, if any, experienced by the pool for the years in which they were members. No assessments have been made for the years ended March 31, 2020 and March 31, 2019.

  Since its inception in 1987, HIROC has accumulated an unappropriated surplus, which is the total of premiums paid by all subscribers plus investment income, less the obligations for claims reserves and expenses and operating expenses.

(in thousands of dollars)

In 2015, the Hospital entered into an agreement with HIROC whereby HIROC continues to provide indemnity insurance to the Hospital; however, the cost of investing and defending any litigation claims, previously included in the insurance premium, will be borne by the Hospital.

Under this agreement, the Hospital provides deposits to HIROC Management Limited (HML), which acts as an agent to pay legal expenses on behalf of the Hospital. For the year ended March 31, 2020, the Hospital has recorded legal expenses of $1,216 (2019 – $1,017) based on the assessment of the actuary engaged by HML, which have been included in the statement of operations. As at March 31, 2020, the deposit balance was $4,239 (2019 – $3,314), of which $4,206 (2019 – $2,669) is not expected to be used within one year and is therefore disclosed as a long-term asset (note 5), and the total liability was estimated to be $2,995 (2019 – $2,470), of which $2,556 (2019 – $1,511) is not expected to be paid within one year and is therefore disclosed as a long-term liability (note 11).

18 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. Within the insurers and patients accounts receivable balance, 68% (2019 – 68%) represents receivables that have been outstanding for less than 60 days.

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 11). Therefore, fluctuations in market interest rates would not impact future cash flows of the Hospital.

Liquidity risk

Liquidity risk is the possible risk of not being able to meet financial obligations when due. The Hospital manages its liquidity risk by forecasting cash flows from operations and anticipating capital, investing and financing requirements.

(in thousands of dollars)

					2020
	Up to 6 months $	More than 6 months and up to 1 year $	More than 1 year and up to 5 years $	More than 5 years $	Total $
Accounts payable and accrued liabilities	85,428	12,136	-	-	97,564
Long-term debt	2,449	2,518	18,000	24,650	47,617
Debentures	1,242	1,242	9,936	186,940	199,360
Other long-term liabilities	-	-	6,339	-	6,339
	89,119	15,896	34,275	211,590	350,880

					2019
	Up to 6 months $	More than 6 months and up to 1 year $	More than 1 year and up to 5 years $	More than 5 years $	Total $
Accounts payable and accrued liabilities	80,403	12,256	-	-	92,659
Long-term debt	2,417	2,438	18,135	29,179	52,169
Other long-term liabilities	-	-	5,885	-	5,885
	82,820	14,694	24,020	29,179	150,713

19 Related party transactions

Foundations

The Hospital is related to the Ajax-Pickering Hospital Foundation, 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.

(in thousands of dollars)

Amounts receivable from the foundations related to capital are as follows:

	2020 $	2019 $
Ajax-Pickering Hospital Foundation	415	11
Lakeridge Health Foundation	565	1,163
The Memorial Hospital Foundation – Bowmanville	571	22
Port Perry Hospital Foundation	5	7
	1,556	1,203

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.

20 Subsequent event

The outbreak of the novel strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. In response to the outbreak, the Hospital has incurred additional expenditures to provide COVID-19 related care since March 2020. Additionally, non-urgent exams and procedures were canceled, resulting in a reduction of MOHLTC/Ontario Health funding and ancillary revenue generating operations. The Hospital will seek compensation from MOHLTC for the financial impact of COVID-19. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact (if any) on the financial results of the Hospital in future periods at this time.

21 Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.