

Lakeridge Health

Financial Statements
March 31, 2021



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, 2021 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, 2021;
- 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 significant accounting policies and other explanatory information.

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.

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

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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 21, 2021

Lakeridge Health
Statement of Financial Position
As at March 31, 2021

(in thousands of dollars)

	2021 \$	2020 \$
Assets		
Current assets		
Cash	194,167	144,107
Short-term investments (note 3)	-	50,000
Accounts and other receivables (note 4)	57,557	23,965
Inventories (note 5)	19,718	5,136
Prepaid expenses	8,264	9,236
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	279,706	232,444
Other long-term assets (note 6)	5,708	6,308
Capital assets (note 7)	625,899	577,926
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	911,313	816,678
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	137,271	97,564
Current portion of deferred capital contributions – capital advances (note 8)	68,893	8,410
Deferred research contributions	4,314	4,960
Deferred contributions – other	5,714	5,320
Current portion of long-term debt (note 9)	2,574	3,027
	<hr/>	<hr/>
	218,766	119,281
Long-term debt (note 9)	30,080	32,685
Debentures (note 10)	99,844	99,844
Employee future benefit liability (note 11)	23,148	21,647
Other long-term liabilities (notes 12 and 17)	5,176	6,339
Deferred capital contributions (note 8)	378,642	387,215
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	755,656	667,011
Net Assets	152,600	147,087
Accumulated remeasurement gains	3,057	2,580
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	155,657	149,667
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	911,313	816,678
Subsequent events (note 23)		

Approved on Behalf of the Board of Directors

Alok Sethi

Director

Alok Sethi, Treasurer

M. Sharon Cochran

Director

Sharon Cochran, Chair, 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, 2021

(in thousands of dollars)

	2021	2020
	\$	\$
Revenue		
Ministry of Health and Long-Term Care (note 20)	630,282	547,240
Patient services	37,433	42,108
Other ancillary revenue and recoveries	43,173	52,285
Specifically funded programs	34,659	24,588
Research grants	2,166	2,356
Amortization of deferred capital contributions – equipment	5,694	5,559
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	753,407	674,136
Expenses		
Compensation and benefits	498,977	469,019
Supplies and other	110,573	90,325
Drugs	52,702	49,512
Medical and surgical supplies	31,596	33,614
Specifically funded programs	34,820	24,618
Amortization of equipment	13,880	13,138
	<hr/>	<hr/>
	742,548	680,226
Excess (deficiency) of revenue over expenses before building amortization and interest expense	10,859	(6,090)
Net building amortization and interest		
Amortization of deferred capital contributions – buildings	16,754	16,507
Amortization of buildings	(23,043)	(22,037)
Interest on long-term debt	(1,216)	(1,733)
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Excess (deficiency) of revenue over expenses before integration	3,354	(13,353)
Net effect of integration (note 22)	2,159	-
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Excess (deficiency) of revenue over expenses for the year	5,513	(13,353)
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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, 2021

(in thousands of dollars)

	2021 \$	2020 \$
Accumulated remeasurement gains – Beginning of year	2,580	2,591
Change in unrealized gains attributable to derivative liability	477	(11)
Accumulated remeasurement gains – End of year	<u>3,057</u>	<u>2,580</u>

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, 2021

(in thousands of dollars)

				2021	2020
	Invested in capital assets \$ (note 13)	Internally restricted \$ (note 14)	Unrestricted \$	Total \$	Total \$
Net assets – Beginning of year	140,930	238	5,919	147,087	160,440
Net effect of integration	845	-	1,314	2,159	-
Excess (deficiency) of revenue over expenses before amortization	-	-	17,829	17,829	(244)
Amortization of capital assets	(36,923)	-	-	(36,923)	(35,175)
Amortization of deferred capital contributions	22,448	-	-	22,448	22,066
	127,300	238	25,062	152,600	147,087
Purchase of capital assets, net of disposals (note 7)	84,051	-	(84,051)	-	-
Purchase of capital assets, funded by debenture (note 13)	(33,047)	-	33,047	-	-
Amounts funded from deferred contributions and restricted funds, less repayments of long-term debt	(10,817)	2,088	8,729	-	-
Net assets (liabilities) – End of year	167,487	2,326	(17,213)	152,600	147,087

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

Lakeridge Health
Statement of Cash Flows
For the year ended March 31, 2021

(in thousands of dollars)

	2021	2020
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	5,513	(13,353)
Add (deduct): Non-cash items		
Net effect of integration, net of cash (note 22)	1,693	-
Amortization of capital assets (note 7)	36,923	35,175
Amortization of deferred capital contributions (note 8)	(22,448)	(22,066)
Employee future benefit expense (note 11)	2,941	2,877
	<hr/>	<hr/>
	24,622	2,633
Net change in non-cash operating items (note 15)	(8,828)	(762)
Employee future benefits paid (note 11)	(1,350)	(1,321)
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	14,444	550
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Capital activities		
Purchase of capital assets (note 7)	(84,051)	(39,462)
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Financing activities		
Repayment of long-term debt and equipment financing	(3,058)	(2,803)
Net proceeds of debenture issue	-	99,844
Other long-term liabilities	(1,269)	443
Capital contributions (note 8)		
Short-term	62,004	1,449
Long-term	11,990	5,593
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	69,667	104,526
	<hr/>	<hr/>
Investing activities		
Maturity of short-term investments (note 3)	50,000	-
	<hr/>	<hr/>
Increase in cash during the year	50,060	65,614
Cash – Beginning of year	144,107	78,493
	<hr/>	<hr/>
Cash – End of year	194,167	144,107
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Supplemental information		
Interest paid (note 9)	1,730	2,072

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

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(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 October 1, 2020, the Hospital entered into an amalgamation agreement with Durham Mental Health Services (DMHS), recording an acquisition of the assets, liabilities and employees of the community service provider.

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 (MOH) and Ministry of Long-Term Care (MOLTC). The board of trustees recognizes the Hospital's ongoing dependency on the MOH and MOLTC as the primary funding sources for the Hospital's operating activities.

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

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.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(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
Accounts payable and accrued liabilities	amortized cost
Long-term debt	amortized cost
Debenture	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, which is measured at fair value.

Inventories

Inventories are valued at the lower of cost and net realizable value, 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.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(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.

Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards 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. Actual results could differ from those estimates. Accounts involving significant estimates include accrued liabilities and employee future benefits liability.

COVID-19 has added to the Hospital's measurement uncertainty in the current year primarily due to judgment required by management to make significant assumptions related to estimates as they relate to funding received from the MOH and MOLTC for incremental costs related to COVID-19. Calculating the amount of the incremental funding requires judgment in interpreting the related guidelines published by the MOH and MOLTC as at the date of these financial statements. Consequently, there is uncertainty with respect to the amounts reported as revenue and receivables from the MOH and MOLTC in the financial statements for the year ended March 31, 2021 as there is a risk the funding provided to the Hospital may be clawed back or the funding receivable at year-end may be reduced if additional clarifying guidance is published by the MOH and MOLTC or if a different interpretation with respect to the application of the guidance to the Hospital's submission is taken by the MOH and MOLTC.

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%, paid annually at the anniversary date. The investment matured in November 2020.

4 Accounts and other receivables

	2021 \$	2020 \$
MOH and MOLTC (note 21)	33,321	485
Insurers and patients	13,771	9,885
Foundations (note 20)	419	1,556
Other	10,994	14,238
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	58,505	26,164
Provision for uncollectible accounts	(948)	(2,199)
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	57,557	23,965
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Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

5 Inventories

During the year, \$180,289 (2020 – \$172,724) of inventory was recognized as an expense. These amounts are included as supplies and other, drugs and medical and surgical supplies in the statement of operations. In 2021, there was a writedown of inventories of \$3,414 (2020 – \$nil) recognized as an expense.

6 Other long-term assets

	2021 \$	2020 \$
Healthcare Insurance Reciprocal of Canada (HIROC) deposits (note 18)	4,282	4,206
Other	1,426	2,102
	5,708	6,308

7 Capital assets

							2021	2020	
	Cost – Beginning of year \$	Additions \$	Cost – End of year \$	Accumulated amortization – Beginning of year \$	Transfers \$	Amortization expense \$	Accumulated amortization – End of year \$	Net \$	Net \$
Land and land improvements	10,792	399	11,191	4,357	-	48	4,405	6,786	6,435
Buildings and building service equipment	753,936	32,547	786,483	309,646	2,635	22,994	335,275	451,208	444,290
Furniture and equipment	162,538	33,053	195,591	103,926	-	13,881	117,807	77,784	58,612
Construction-in- progress	68,589	21,532	90,121	-	-	-	-	90,121	68,589
	995,855	87,531	1,083,386	417,929	2,635	36,923	457,487	625,899	577,926

Land and land improvements amortization of \$48 (2020 – \$50) is included in amortization of buildings on the statement of operations.

Included in construction-in-progress is capitalized interest of \$2,688 (2020 – \$nil) related to the design and development of a clinical information system that is expected to be completed in fiscal 2022.

Included in additions and transfers of buildings and building service equipment is \$3,480 and \$2,635, respectively, as a result of the Durham Mental Health Services integration (note 22).

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

8 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 MOH and MOLTC and other funding agencies, which are either available for future use or subject to a settlement process with the funding agency. In fiscal 2021, the Hospital received \$56,921 from the MOH and MOLTC specific to the construction of a new 320-bed long-term care home adjacent to the Ajax-Pickering hospital site. The home is part of an accelerated build process in collaboration with the government and is expected to be completed in early 2022.

Short-term

	2021 \$	2020 \$
Contributions received for capital purposes – current year		
MOH and MOLTC – redevelopment	61,190	1,278
Other contributions	-	171
Foundation – redevelopment	814	-
Transfer to long-term	(1,521)	(10,288)
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Net increase (decrease) for the year	60,483	(8,839)
Balance – Beginning of year	8,410	17,249
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Balance – End of year	68,893	8,410

Long-term

	2021 \$	2020 \$
Contributions received for capital purposes – current year		
Foundations	2,221	2,634
MOH and MOLTC – COVID-19 capital funding	9,462	-
Other	671	2,959
Transfer from short-term	1,521	10,288
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Net increase for the year	13,875	15,881
Less: Amortization	22,448	22,066
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Net decrease for the year	(8,573)	(6,185)
Balance – Beginning of year	387,215	393,400
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Balance – End of year	378,642	387,215

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

9 Long-term debt

	2021 \$	2020 \$
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 12)	7,735	8,741
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
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	8,935	9,459
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 (2020 – \$1,786)	15,984	16,806
	<u>32,654</u>	<u>35,712</u>
Less: Amounts due within one year	2,574	3,027
	<u>30,080</u>	<u>32,685</u>

Interest expense on long-term debt was \$1,216 (2020 – \$1,529). Interest paid during the year amounted to \$1,730 (2020 – \$2,072).

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

	\$
2022	2,574
2023	2,797
2024	3,035
2025	3,291
2026	3,564
Thereafter	17,393
	<u>32,654</u>

10 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 instalments in September and March of each year. The amount owing as at March 31, 2021 is \$99,844 (2020 – \$99,844), inclusive of accrued interest of \$210 (2020 – \$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 the Hospital's new clinical information system.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

11 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:

	2021	2020
	\$	\$
Employee future benefit liability		
Balance – Beginning of year	22,998	21,442
Employer current service cost	1,715	1,681
Amortization of actuarial losses	392	405
Interest cost	834	791
Benefits paid	(1,350)	(1,321)
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Balance – End of year	24,589	22,998
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Short-term portion included in accrued liabilities	1,441	1,351
Long-term portion	23,148	21,647
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	24,589	22,998
	<hr/>	<hr/>
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	29,399	27,245
Unamortized experience losses	(4,810)	(4,247)
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	24,589	22,998
	<hr/>	<hr/>

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

	2021	2020
Discount rate to determine accrued benefit obligation	2.70%	2.95%
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 2021 and thereafter	6.00%	6.00%
Expected average remaining service life of employees	14	14

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

12 Other long-term liabilities

	2021 \$	2020 \$
Derivative liability	1,205	1,682
HIROC liability (note 18)	2,545	2,556
Other	1,426	2,101
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	5,176	6,339
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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 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 fair value of the interest rate swap as at March 31, 2021 is \$1,205 (2020 – \$1,682). The change in fair value during the year of \$477 (2020 – \$11) is recorded in the statement of remeasurement gains and losses.

13 Net assets invested in capital assets

	2021 \$	2020 \$
Capital assets (note 7)	625,899	577,926
Less: Amounts funded by		
Deferred capital contributions (note 8)	378,642	387,215
Debenture	47,116	14,069
Long-term debt (note 9)	32,654	35,712
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	167,487	140,930
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14 Internally restricted

The Hospital has restricted \$170 (2020 – \$170) for major capital refurbishment of the parking garage and \$68 (2020 – \$68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

The Hospital has also restricted \$2,088 (2020 – \$nil) as a sinking fund for repayment of its debenture.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

15 Net change in non-cash operating items

	2021 \$	2020 \$
Decrease (increase) in assets		
Accounts receivable	(31,267)	(795)
Inventories	(14,582)	(727)
Prepaid expenses	996	(2,617)
Other long-term assets	600	(935)
	<u>(44,253)</u>	<u>(5,074)</u>
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	35,677	4,876
Deferred research contributions	(646)	(540)
Deferred contributions – other	394	(24)
	<u>35,425</u>	<u>4,312</u>
	<u>(8,828)</u>	<u>(762)</u>

16 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:

	\$
2022	1,526
2023	1,414
2024	844
2025	725
2026	727
Thereafter	<u>4,635</u>
	<u>9,871</u>

17 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 \$27,654 (2020 – \$27,237) and are reflected as compensation and benefits in the statement of operations. The most recent actuarial valuation of the plan as at December 31, 2020 disclosed total going concern pension obligations of \$79,852 in respect of service accrued to December 31, 2020 and a smoothed value of net assets of \$95,197 determined at the same date.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

18 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, 2021 and March 31, 2020.

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.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(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, 2021, the Hospital has recorded legal expenses of \$1,731 (2020 – \$1,216) based on the assessment of the actuary engaged by HML, which have been included in the statement of operations. As at March 31, 2021, the deposit balance was \$5,012 (2020 – \$4,239), of which \$4,282 (2020 – \$4,206) is not expected to be used within one year and is therefore disclosed as a long-term asset (note 6), and the total liability was estimated to be \$3,750 (2020 – \$2,995), of which \$2,545 (2020 – \$2,556) is not expected to be paid within one year and is therefore disclosed as a long-term liability (note 12).

19 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% (2020 – 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 12). 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.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

	2021				
	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	122,827	14,444	-	-	137,271
Long-term debt	2,148	2,171	18,004	20,047	42,370
Debentures	1,242	1,242	9,936	184,456	196,876
Other long-term liabilities	-	-	5,176	-	5,176
	126,217	17,857	33,116	204,503	381,693
	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

20 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.

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

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

	2021 \$	2020 \$
Ajax-Pickering Hospital Foundation	13	415
Lakeridge Health Foundation	38	565
The Memorial Hospital Foundation – Bowmanville	358	571
Port Perry Hospital Foundation	10	5
	<hr/>	<hr/>
	419	1,556
	<hr/>	<hr/>

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.

21 Impact of COVID-19

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. 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 cancelled, resulting in a reduction of MOH, MOLTC and OH funding and ancillary revenue generating operations. The Hospital has claimed reimbursement from the MOH and MOLTC, under approved funding envelopes, in order to mitigate the financial impact. MOH, MOLTC and OH revenue associated with these claims for fiscal 2021 is included in the statement of operations in the following amounts:

	Total \$
Incremental expenses and cost pressures	39,613
COVID-19 assessment and testing centres	5,288
Lost non-MOH and MOLTC revenue	6,715
Pandemic premium pay	10,300
Other	12,142
Physician compensation expenses	14,041
	<hr/>
	88,099
	<hr/>

As at March 31, 2021, \$32,923 of these claims is included in accounts receivable. These claims are subject to a future settlement process, which could result in an adjustment to the amount recoverable from the MOH, MOLTC and OH.

In addition, the Hospital received \$9,462 of COVID-19 related funding from the MOH and MOLTC to purchase capital equipment (note 8).

Lakeridge Health

Notes to Financial Statements

March 31, 2021

(in thousands of dollars)

22 Integration with Durham Mental Health Services

On October 1, 2020, the Hospital entered into an agreement with Durham Mental Health Services to amalgamate all assets, liabilities, employees, professional staff and undertakings of Durham Mental Health Services related exclusively to the services, programs and operations delivered by Durham Mental Health Services. In accordance with PSAS 3430, the Hospital recorded the net assets of Durham Mental Health Services at the carrying value of Durham Mental Health Services on the date of amalgamation with the net increase in net assets recognized in the statement of operations for the year ended March 31, 2021.

As at the date of amalgamation, the Hospital acquired the following assets and liabilities:

	\$
Cash	3,852
Accounts receivable	2,325
Prepaid expenses	24
	<hr/>
	6,201
Capital assets	845
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Total assets	7,046
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Accounts payable and accrued liabilities	3,940
Other long-term liabilities	583
Deferred capital contributions	364
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Total liabilities	4,887
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Net effect of integration	2,159
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During the six-month period post integration to March 31, 2021, the Hospital recognized \$6,717 in revenue and \$6,778 in expenses, with excess of expenses over revenue of \$61 from the acquired operations.

23 Subsequent events

In April 2021, the Hospital received additional funding of \$55,817 from the MOH and MOLTC pursuant to the accelerated build of the new long-term care home in Ajax-Pickering (note 8).

24 Comparative figures

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