

Lakeridge Health

Financial Statements
March 31, 2023

Lakeridge Health
Financial Statements
For the year ended March 31, 2023

Contents

Independent Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Operations	5
Statement of Remeasurement Gains	6
Statement of Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9 – 21

Independent Auditor's Report

To the Members of the Board of Lakeridge Health

Opinion

We have audited the financial statements of Lakeridge Health (the "Hospital"), which comprise the statement of financial position as at March 31, 2023, and the statements of operations, remeasurement gains, and changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as at March 31, 2023, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 are independent of the Hospital in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

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.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario

June 22, 2023

Lakeridge Health

Statement of Financial Position

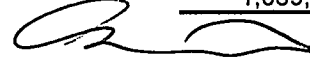
As at March 31, 2023

(in thousands of dollars)

	2023 \$	2022 \$ (Restated) (Note 18)
Assets		
Current assets		
Cash	133,986	181,129
Short-term investments	6,000	-
Accounts and other receivables (note 3)	63,316	67,080
Inventories	16,941	18,613
Prepaid expenses	14,787	11,816
	<u>235,030</u>	<u>278,638</u>
Other long-term assets	6,394	6,370
Capital assets (note 4)	<u>828,386</u>	<u>824,686</u>
	<u>1,069,810</u>	<u>1,109,694</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	171,989	161,834
Deferred contributions - unspent (note 8)	43,234	69,689
Deferred research contributions	4,400	4,445
Deferred contributions – other	6,409	5,952
Current portion of long-term debt (note 5)	3,564	2,845
	<u>229,596</u>	<u>244,765</u>
Long-term debt (note 5)	35,911	27,457
Debentures (note 6)	99,860	99,850
Employee future benefit liability (note 7)	27,648	26,271
Other long-term liabilities	22,609	14,671
Asset Retirement Obligations (note 18)	5,192	5,192
Deferred contributions – capital assets (note 8)	<u>553,806</u>	<u>540,625</u>
	<u>974,622</u>	<u>958,831</u>
Net Assets	91,166	147,190
Accumulated remeasurement gains	<u>4,022</u>	<u>3,673</u>
	<u>95,188</u>	<u>150,863</u>
Approved on Behalf of the Board of Trustees	<u>1,069,810</u>	<u>1,109,694</u>

Approved on Behalf of the Board of Trustees

 Trustee

 Trustee

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

Lakeridge Health
Statement of Operations
For the year ended March 31, 2023

(in thousands of dollars)

	2023 \$	2022 \$ (Restated) (Note 18)
Revenue		
Ministry of Health and Ministry of Long-Term Care (note 17)	675,720	664,566
Patient services	43,720	39,021
Other ancillary revenue and recoveries	46,793	46,788
Specifically funded programs	86,152	56,971
Amortization of deferred capital contributions – equipment	7,305	6,484
	<u>859,690</u>	<u>813,830</u>
Expenses		
Compensation and benefits	563,150	529,095
Supplies and other	121,867	106,818
Drugs	69,077	58,641
Medical and surgical supplies	40,970	35,348
Specifically funded programs	89,263	58,525
Amortization of equipment	22,953	17,489
	<u>907,280</u>	<u>805,916</u>
Excess (deficiency) of revenue over expenses before building amortization and interest expense	(47,590)	7,914
Net building amortization and interest		
Amortization of deferred capital contributions – buildings	22,500	16,408
Amortization of buildings	(29,748)	(23,290)
Interest on long-term debt	(1,186)	(1,926)
	<u>(56,024)</u>	<u>(894)</u>
Loss for the year	<u>(56,024)</u>	<u>(894)</u>

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

Lakeridge Health

Statement of Remeasurement Gains

For the year ended March 31, 2023

(in thousands of dollars)

	2023	2022
	\$	\$
Accumulated remeasurement gains – Beginning of year	3,673	3,057
Change in unrealized gains attributable to derivative liability	349	616
Accumulated remeasurement gains – End of year	<u>4,022</u>	<u>3,673</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, 2023

(in thousands of dollars)

				2023	2022
	Invested in capital assets \$ (note 9)	Internally restricted \$ (note 10)	Unrestricted \$	Total \$	(Restated) (Note18) Total \$
Net assets (liability) – Beginning of year	154,614	4,432	(11,856)	147,190	152,600
Net impact from adoptions of ARO (note 18)	-	-	-	-	(4,516)
Loss for the year before amortization	-	-	(33,128)	(33,128)	16,993
Amortization of capital assets	(52,701)	-	-	(52,701)	(40,779)
Amortization of deferred capital contributions	29,805	-	-	29,805	22,892
Purchase of capital assets	56,401	-	(56,401)	-	-
Purchase of capital assets, funded by debenture and long term debt, less repayments of long-term debt (note 5)	(13,321)	-	13,321	-	-
Amounts funded from deferred contributions and restricted funds	(42,986)	2,241	40,745	-	-
Net assets (liability) – End of year	131,812	6,673	(47,319)	91,166	147,190

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

Lakeridge Health
Statement of Cash Flows
For the year ended March 31, 2023

(in thousands of dollars)

	2023 \$	2022 \$ (Restated) (Note 18)
Cash provided by (used in)		
Operating activities		
Loss for the year	(56,024)	(894)
Add (deduct): Non-cash items		
Impact on opening net assets from adoption of ARO	-	(4,516)
Amortization of capital assets (note 4)	52,701	40,779
Amortization of deferred capital contributions (note 8)	(29,805)	(22,892)
Employee future benefits (note 7)	1,377	1,682
	<hr/>	<hr/>
	(31,751)	14,159
Net change in non-cash operating items (note 11)	13,008	13,994
	<hr/>	<hr/>
	(18,743)	28,153
Capital activities		
Purchase of capital assets (note 4)	<hr/>	<hr/>
	(56,401)	(239,566)
Financing activities		
Additional (repayment) of long-term debt and equipment financing	9,173	(2,605)
Other long-term liabilities	8,267	15,303
Amortization of debenture issue costs	10	6
Capital contributions (note 8)	16,531	185,671
	<hr/>	<hr/>
	34,001	198,375
Investing activities		
Purchase of short-term investments	<hr/>	<hr/>
	(6,000)	-
Decrease in cash during the year	<hr/>	<hr/>
	(47,143)	(13,038)
Cash – Beginning of year	<hr/>	<hr/>
	181,129	194,167
Cash – End of year	<hr/>	<hr/>
	133,986	181,129
Supplemental information		
Interest paid	4,123	4,282

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

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(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. Additionally, at the direction of the Ministry of Health, the Hospital integrated the Ajax-Pickering Hospital, formerly of the Rouge Valley Health System, on December 1, 2016. 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. The Hospital is a registered charity under the Income Tax Act (Canada) and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

In April 2021 the Hospital assumed management of the Sunnycrest Nursing Home under temporary emergency management license until its closure in May 2022. The Hospital then made permanent its role in long-term care with the March 2022 opening of its own new 320-bed home, Lakeridge Gardens, located next to the Ajax-Pickering Hospital. Results of both long-term care operations have been included in the revenue and expense sections of specifically funded programs.

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 enables 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.

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.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

2 Summary of significant accounting policies (continued)

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

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

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
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
Asset retirement obligation	40 – 50 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.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

2 Summary of significant accounting policies (continued)

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.

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, employee future benefit liability, other long-term liabilities and asset retirement obligations.

COVID-19 has added to the Hospital's measurement uncertainty in the current and prior 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, 2023 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.

Asset Retirement Obligation

A liability for an asset retirement obligation is recognized when there is a legal obligation to incur retirement costs in relation to a tangible capital asset; the past transaction or event giving rise to the liability has occurred; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability is recorded at an amount that is the best estimate of the expenditure required to retire a tangible capital asset at the financial statement date. This liability is subsequently reviewed at each financial reporting date and adjusted for the passage of time and for any revisions to the timing, amount required to

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

2 Summary of significant accounting policies (continued)

settle the obligation or the discount rate. Upon the initial measurement of an asset retirement obligation, a corresponding asset retirement cost is added to the carrying value of the related tangible capital asset if it is still in productive use. This cost is amortized over the useful life of the tangible capital asset. If the related tangible capital asset is unrecognized or no longer in productive use, the asset retirement costs are expensed.

3 Accounts and other receivables

	2023 \$	2022 \$
MOH and MOLTC (note 17)	49,069	50,774
Insurers and patients	14,338	9,994
Foundations (note 16)	1,041	709
Other	4,945	7,989
	<hr/>	<hr/>
	69,393	69,466
Provision for uncollectible accounts	(6,077)	(2,386)
	<hr/>	<hr/>
	63,316	67,080

4 Capital assets

	2023		2022 (Restated) (Note 18)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land and Land Improvements	11,364	4,560	11,191	4,454
Buildings and Building service equipment	1,012,852	394,598	967,362	358,565
Furniture and Equipment	313,286	151,755	301,495	135,247
Construction in Progress	41,175	-	42,228	-
Asset Retirement Obligations (ARO)	5,192	4,570	5,192	4,516
	<hr/>	<hr/>	<hr/>	<hr/>
	1,383,869	555,483	1,327,468	502,782
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value		828,386		824,686

Land and land improvements amortization of \$106 (2022 – \$49) is included in amortization of buildings on the statement of operations.

Included in Furniture and Equipment is capitalized interest of \$4,566 (2022 - \$4,566) related to the design and development of a clinical information system that was completed in fiscal 2023.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

5 Long-term debt

	2023 \$	2022 \$
Loan of \$17,500 due March 2027 for the purpose of financing the construction of a Central Utilities Plant at one of the Hospital's facilities, interest fixed at 5.99% through an interest rate swap contract	5,531	6,666
Loan of \$959 originally, renewed in May 2021 at \$245, due May 2026 for a mental health supportive housing residence, bearing interest at 1.72% with monthly payments of principal and interest	157	206
Loan of \$12,500 due December 2032 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	7,795	8,381
Loan of \$17,710 due April 2031 bearing interest at 5.25%, acquired for the retrofit of energy systems at the Hospital, repayable based on a 19-year term with the payments commenced in January 2015	13,992	15,049
Loan to finance the construction of a new parking garage on the Ajax Pickering hospital site and the Jerry Coughlan Health and Wellness Centre. This is a demand multi-draw unsecured credit facility up to \$25M by way of Cdn\$ Prime (minus 0.20%) and CDOR (plus 0.90%) loans, repayable in monthly payments of principal and interest over a 25-year term.	12,000	-
	<u>39,475</u>	<u>30,302</u>
Less: Amounts due within one year	3,564	2,845
	<u>35,911</u>	<u>27,457</u>

The Hospital entered into an interest rate swap agreement on the loan of \$17,500 for construction of a central utilities plant to modify the floating rate of interest 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, 2023 is \$240 (2022 – \$589) and recorded under Other long-term liabilities in the Statement of Financial Position. The change in fair value during the year of \$349 (2022 – \$616) is recorded in the Statement of Remeasurement Gains and Losses.

Interest expense on long-term debt in the current year was \$1,186 (2022 – \$1,314).

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

	\$
2024	3,564
2025	3,821
2026	4,094
2027	4,344
2028	3,075
Thereafter	<u>20,577</u>
	<u>39,475</u>

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

6 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 as at March 31, 2023 is \$99,860 (2022 - \$99,850), inclusive of accrued interest of \$211 and net of unamortized bond issue cost of \$351 (2022 - \$361). The debentures are subject to certain covenants and redemption, principal repayment to occur at maturity. Proceeds funded capital investment to support the Hospital's new clinical information system.

7 Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent full actuarial valuation for the Hospital was performed on March 31, 2022.

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

	2023	2022
	\$	\$
Employee future benefit liability		
Balance – Beginning of year	26,271	24,589
Employer current service cost	1,736	1,837
Amortization of actuarial (gains)/losses	(168)	463
Interest cost	897	824
Benefits paid	(1,088)	(1,442)
	<hr/>	<hr/>
Balance – End of year	27,648	26,271
	<hr/>	<hr/>
Unamortized actuarial gains	(5,494)	(3,224)
	<hr/>	<hr/>
Accrued benefit obligation, end of year	22,154	23,047

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

	2023	2022
Discount rate to determine accrued benefit obligation	4.55%	3.70%
Dental cost increases	4.40%	4.40%
Extended health-care cost increases	4.80%	4.50%
Expected average remaining service life of employees	12	12

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

8 Deferred capital contributions

Deferred capital contributions include the unamortized balance of funding received from MOH and MOLTC and other funding sources for approved capital acquisitions and development. The current portion of deferred contributions represents the unspent amount of externally restricted contributions received for specific purposes and interest earned on these funds.

	2023	2022
	\$	\$
Balance, beginning of the year	610,314	447,535
Contributions received in the current year	16,531	185,671
Less: amounts amortized to revenue	(29,805)	(22,892)
	597,040	610,314
Deferred contributions - unspent	43,234	69,689
Deferred contributions - capital assets (note 9)	553,806	540,625
Balance, end of year	597,040	610,314

9 Net assets invested in capital assets

	2023	2022 (Restated) (Note 18)
	\$	\$
Capital assets (note 4)	828,386	824,686
Less: amounts funded by		
Deferred contributions – capital assets (note 8)	553,806	540,625
Debenture	98,101	93,953
Long-term debt (note 5)	39,475	30,302
Impact from adoption of ARO	(5,192)	(5,192)
	131,812	154,614

10 Internally restricted

The Hospital has restricted \$170 (2022 – \$170) for major capital refurbishment of the parking garage and \$68 (2022 – \$68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

The Hospital has also restricted \$6,435 (2022 – \$4,194) as a sinking fund for repayment of its debenture.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

11 Net change in non-cash operating items

	2023 \$	2022 \$
Decrease (increase) in assets		
Accounts receivable	3,764	(9,523)
Inventories	1,672	1,105
Prepaid expenses	(2,971)	(3,552)
Other long-term assets	(24)	(662)
	<u>2,441</u>	<u>(12,632)</u>
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	10,155	26,257
Deferred research contributions	(45)	131
Deferred contributions – other	457	238
	<u>10,567</u>	<u>26,626</u>
	<u>13,008</u>	<u>13,994</u>

12 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:

	\$
2024	1,354
2025	1,182
2026	1,226
2027	1,040
2028	969
Thereafter	<u>2,610</u>
	<u>8,381</u>

13 Pension plan

Substantially all of the employees of the Hospital are members of the plan, which is a multi-employer best five consecutive year average pay defined benefit pension plan. Employer contributions made to the plan during the year by the Hospital amount to \$31,248 (2022 – \$29,967) and are reflected as compensation and benefits in the Statement of Operations. The most recent actuarial valuation of the plan as at December 31, 2022 indicated that plan is funded at 117%.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

14 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.

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 Healthcare Insurance Reciprocal of Canada (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 subject 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, 2023 and March 31, 2022. 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 2015, the Hospital entered into an agreement with HIROC Management Limited (HML) 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 HML, which acts as an agent to pay

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

14 Contingent liabilities and guarantees (continued)

legal expenses on behalf of the Hospital. For the year ended March 31, 2023, the Hospital has recorded legal expenses of \$2,819 (2022 – \$2,222) based on the assessment of the actuary engaged by HML, which have been included in the Statement of Operations. As at March 31, 2023, the deposit balance was \$7,120 (2022 – \$6,405), of which \$6,320 (2022 – \$5,620) is not expected to be used within one year and is therefore included in Other long-term assets in the Statement of Financial Position. The total liability was estimated to be \$4,377 (2022 – \$4,198), of which \$3,128 (2022 – \$2,967) is not expected to be paid within one year and is therefore included in Other Long-term liabilities in the Statement of Financial Position.

- Bill 124, the Protecting a Sustainable Public Sector for Future Generations Act, 2019, provided a three-year window of salary moderation capping annual increases to 1% for unionized employees of the Ontario government, Crown agencies, the broader public sector and a range of organizations that receive funding from the Ontario government, including Hospitals. On November 29, 2022, Bill 124 was declared by the Ontario Superior Court of Justice to be “void and of no effect”, on the grounds that it interfered with unions’ freedom of association rights under the Canadian Charter of Rights and Freedoms. As a result of the court decision ruling Bill 124 to be “void and of no effect”, certain collective agreements may need to be re-opened for all years impacted by Bill 124. Accordingly, the Hospital has recorded an accrued liability for estimated retroactive payments to the impacted employees.

15 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. The amounts disclosed in the Statement of Financial Position are net of an allowance for doubtful accounts, estimated by management of the Hospital based on previous experience and its assessment of the current economic environment. The Hospital does not have any significant past due accounts receivable that are not provided for. Within the insurers and patients accounts receivable balance, 60% (2022 – 73%) 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. Some of the Hospital’s long-term debt bears fixed interest rates, and fluctuations in market rates have no impact, whereas some is variable, and therefore subject to risk. The interest rate risk on the loan for the central utilities plant is mitigated through a derivative financial instrument that exchanges the variable rate for a fixed rate (note 5). The hospital will monitor interest rate risk on it’s new parking garage loan and consider further mitigation strategies as necessary.

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

15 Risk management (continued)

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. The Hospital believes its current sources of liquidity are sufficient to cover known short and long-term cash obligations.

The maturity analysis of the Hospital's long-term debt is described in notes 5 and 6. The majority of the accounts payable and accrued liabilities are expected to be settled in the next fiscal year.

					2023
	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	148,409	23,580	-	-	171,989
Long-term debt	1,748	1,816	15,334	20,577	39,475
Debentures	1,242	1,242	9,936	87,440	99,860
Other long-term liabilities	-	-	22,609	-	22,609
	151,399	26,638	47,879	108,017	333,933
					2022
	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	146,472	15,362	-	-	161,834
Long-term debt	1,390	1,455	13,903	13,554	30,302
Debentures	1,242	1,242	9,936	87,430	99,850
Other long-term liabilities	-	-	14,671	-	14,671
	149,104	18,059	38,510	100,984	306,657

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

16 Related party transactions

Foundations

The Hospital is related to the Ajax-Pickering Hospital Foundation, the Lakeridge Health Foundation, The Memorial Hospital Foundation – Bowmanville, and the Port Perry Hospital Foundation. 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 the foundations recorded in accounts and other receivables in the Statement of Financial Position include the following:

	2023 \$	2022 \$
Ajax-Pickering Hospital Foundation	12	13
Lakeridge Health Foundation	51	29
The Memorial Hospital Foundation – Bowmanville	446	349
Port Perry Hospital Foundation	532	318
	1,041	709

Shared services

The Hospital is a member of Plexxus, a not-for-profit shared service organization with 20 hospital owner / members and customers. Funded by the members (of which the Hospital is one), the objective of Plexxus is to work collaboratively with stakeholders to deliver cost efficient services. As at April 1, 2023, Plexxus amalgamated with Mohawk Medbuy Corporation.

17 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. In response to the outbreak, the Hospital has incurred additional expenditures to provide COVID-19 related care since March 2020. The Hospital has claimed reimbursement from the MOH and MOLTC, under approved funding envelopes, in order to mitigate the financial impact. The revenue associated with these claims for fiscal 2023 amounts to \$72,297 (2022 – \$96,446) and is included in the Statement of Operations.

As at March 31, 2023, \$38,459 (2022 – \$39,824) 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 \$454 (2022 – \$4,742) of COVID-19 related funding from the MOH and MOLTC to purchase capital equipment (note 8).

Lakeridge Health

Notes to Financial Statements

March 31, 2023

(in thousands of dollars)

18 Asset Retirement Obligations

Effective April 1, 2022 the organization adopted new Public Sector Accounting Handbook Standard PS 3280 Asset Retirement Obligations. As a result of the adoption, the presentation of the financial statements changed from the prior year. The standard requires recognition of an asset retirement obligation arising from a legal obligation to remove a tangible capital asset (whether in productive use or not). The standard requires an adjustment to opening accumulated net assets and the liability is measured as of the date the legal obligation was incurred. The change in accounting policy has been applied under a modified retroactive approach with restatement of the prior year figures. The impact of adoption of this standard was as follows:

	March 31, 2022	April 1, 2021
	\$	\$
Increase in capital assets	676	700
Increase in asset retirement obligation	5,192	4,985
Decrease in net assets	4,516	4,285

The asset retirement obligation has been recognized in respect to the appropriate handling and removal of asbestos present within the buildings at the various Lakeridge sites. The estimated total undiscounted future expenditures are \$5,192, which are to be incurred over the next 29 years. The liability is expected to be settled 2052.

19 Comparative figures

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