

Lakeridge Health

Financial Statements

March 31, 2018



June 22, 2018

Independent Auditor's Report

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

We have audited the accompanying financial statements of Lakeridge Health, which comprise the statement of financial position as at March 31, 2018 and the statements of operations, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakeridge Health as at March 31, 2018 and the results of its operations, its remeasurement gains and losses, and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Lakeridge Health

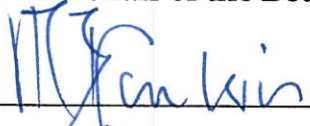
Statement of Financial Position

As at March 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Assets		
Current assets		
Cash (note 4)	158,894	115,144
Short-term investments (note 5)	-	50,000
Accounts receivable (note 6)	22,373	18,610
Inventories	4,345	4,124
Prepaid expenses	3,690	3,692
	189,302	191,570
Restricted funds - energy retrofit (note 4)	-	51
Other long-term assets (note 7)	2,240	1,579
Capital assets (note 8)	559,846	551,619
	751,388	744,819
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	98,110	92,537
Deferred capital contributions - capital advances (note 9)	17,559	10,568
Deferred research contributions	5,500	5,357
Deferred contributions - other	5,962	6,376
Current portion of long-term debt (note 10)	2,617	2,432
	129,748	117,270
Long-term debt (note 10)	38,506	41,117
Employee future benefit liability (note 11)	19,263	18,537
Other long-term liabilities (notes 12 and 18)	3,418	4,081
Deferred capital contributions (note 9)	398,412	408,545
	589,347	589,550
Net Assets	159,595	153,706
Accumulated remeasurement gains	2,446	1,563
	162,041	155,269
	751,388	744,819

Approved on Behalf of the Board of Directors



Valentine Lovekin

Board Chair



Director

Alok Sethi, Treasurer

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

Lakeridge Health
Statement of Operations
For the year ended March 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Revenue		
Ministry of Health and Long-Term Care	508,173	433,629
Patient services	39,872	32,049
Other ancillary revenue and recoveries	36,692	32,333
Specifically funded programs	20,633	18,298
Research grants	2,014	1,878
Amortization of deferred capital contributions - equipment	4,784	5,348
	<u>612,168</u>	<u>523,535</u>
Expenses		
Compensation and benefits	415,044	345,374
Supplies and other	86,827	63,517
Drugs	37,306	33,190
Medical and surgical supplies	29,696	28,178
Specifically funded programs	20,717	18,250
Amortization of equipment	10,780	10,135
	<u>600,370</u>	<u>498,644</u>
Excess of revenue over expenses before building amortization, interest expense and integration	11,798	24,891
Net building amortization and interest		
Amortization of deferred capital contributions - buildings	16,476	13,840
Amortization of buildings	(20,531)	(17,722)
Interest on long-term debt	(1,854)	(1,936)
	<u>5,889</u>	<u>19,073</u>
Excess of revenue over expenses before net effect of integration	5,889	19,073
Net effect of integration (note 3)	<u>-</u>	<u>8,388</u>
Excess of revenue over expenses for the year	<u>5,889</u>	<u>27,461</u>

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

Lakeridge Health

Statement of Remeasurement Gains

For the year ended March 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Accumulated remeasurement gains - Beginning of year	1,563	761
Unrealized gains attributable to derivative liability	883	802
Accumulated remeasurement gains - End of year	<u>2,446</u>	<u>1,563</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, 2018

(in thousands of dollars)

	2018			2017	
	Invested in capital assets \$ (note 13)	Internally restricted \$ (note 14)	Unrestricted \$	Total \$	Total \$
Net assets - Beginning of year	99,525	238	53,943	153,706	126,245
Net effect of integration	-	-	-	-	8,388
Excess of revenue over expenses before amortization and net effect of integration (note 3)	-	-	15,940	15,940	27,742
Amortization of capital assets	(31,311)	-	-	(31,311)	(27,857)
Amortization of deferred capital contributions	21,260	-	-	21,260	19,188
Purchase of capital assets, net of disposals (note 8)	89,474	238	69,883	159,595	153,706
Amounts funded from deferred contributions and restricted funds, less repayments of long-term debt	39,538	-	(39,538)	-	-
	(8,701)	-	8,701	-	-
Net assets - End of year	120,311	238	39,046	159,595	153,706

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

Lakeridge Health
Statement of Cash Flows
For the year ended March 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	5,889	27,461
Add (deduct): Non-cash items		
Net effect of integration, net of cash (note 3)	-	(3,023)
Amortization of capital assets (note 8)	31,311	27,857
Amortization of deferred capital contributions (note 9)	(21,260)	(19,188)
Employee future benefit expense (note 11)	2,108	1,772
	18,048	34,879
Net change in non-cash operating items (note 15)	385	(2,476)
Employee future benefits paid (note 11)	(1,108)	(948)
	17,325	31,455
Capital activities		
Purchase of capital assets (note 8)	(39,538)	(25,721)
Financing activities		
Repayment of long-term debt and equipment financing	(2,426)	(3,032)
Other long-term liabilities	220	(84)
Capital contributions (note 9)		
Short-term	11,954	4,416
Long-term	6,164	7,504
Net change in restricted cash	51	865
	15,963	9,669
Investing activities		
Redemption of short-term investments	50,000	-
Increase in cash during the year	43,750	15,403
Cash - Beginning of year	115,144	99,741
Cash - End of year (note 4)	158,894	115,144
Supplemental information		
Interest paid (note 10)	2,449	2,585

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

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(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.

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.

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

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

Adoption of new accounting policy

Effective April 1, 2015, the Hospital adopted public sector accounting standard 3430, Restructuring Transactions (PS 3430). This accounting standard defines restructuring transactions and provides guidance with respect to the accounting and reporting for these transactions. The Hospital accounted for the integration with Rouge Valley Health System (RVHS) under this new accounting standard. In accordance with PS 3430, the Hospital recorded the net assets of Ajax-Pickering Hospital (APH) at the carrying value of RVHS on the date of transfer with the net increase in net assets recognized in the statement of operations for the year ended March 31, 2018 (note 3).

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

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Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

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.

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 Integration with Ajax-Pickering Hospital

On November 30, 2016, the Hospital entered into an integration and transfer agreement with Rouge Valley Health System (RVHS), ordered by the Minister of Health and Long-Term Care, to transfer all agreed on assets, liabilities, employees, professional staff and undertakings of RVHS related exclusively to the services, programs and operations delivered by RVHS at its Ajax-Pickering Hospital site (APH).

In accordance with PS 3430, the Hospital recorded the net assets of APH at the carrying value of RVHS on the date of transfer with the net increase in net assets recognized in the statement of operations for the year ended March 31, 2017.

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

	\$
Cash	5,365
Accounts receivable	4,159
Inventories	471
Prepaid expenses	1,007
	<hr/>
	11,002
Capital assets	93,357
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Total assets	104,359

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Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

	\$
Accounts payable and accrued liabilities	17,958
Other long-term liabilities	204
Employee future benefit liability	3,846
Deferred capital contributions	<u>73,963</u>
Total liabilities	<u>95,971</u>
Net effect of integration	<u>8,388</u>

As at the date of transfer, the net assets of APH were as follows:

	\$
Invested in Capital Assets	
Capital Assets	93,357
Less: amounts funded by deferred capital contributions	<u>(73,963)</u>
	19,394
Unrestricted	<u>(11,006)</u>
Net Assets	<u>8,388</u>

The following summarizes the activity of the acquired operations for the four-month period post-integration to March 31, 2017, which is included in the statement of operations:

	\$
Revenues	
MoHLTC	33,653
Patient services	4,283
Other ancillary revenue and recoveries	1,386
Specifically funded programs	659
Amortization of deferred capital contributions - equipment	<u>176</u>
	<u>40,157</u>
Expenses	
Compensation and benefits	27,228
Supplies and other	2,350
Drugs	960
Medical and surgical supplies	7,513
Specifically funded programs	603
Amortization of deferred capital contributions - equipment	<u>718</u>
	<u>39,372</u>

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Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

	\$
Excess of revenue over expenses before building amortization and interest expense	785
Amortization of deferred capital contributions - buildings	1,065
Amortization of buildings	(1,343)
Interest on long-term debt	(3)
	<u>504</u>
Excess of revenue over expenses for the year	<u>504</u>

4 Cash

	2018 \$	2017 \$
Cash - operations	158,894	115,144
Restricted funds - energy retrofit	-	51
	<u>158,894</u>	<u>115,195</u>

In fiscal 2012 - 2013, the Hospital entered into an agreement to retrofit certain energy systems. Under the agreement, \$17,710 (note 10) was borrowed and held in trust to finance the project expenditures. As at March 31, 2018, \$nil (2017 - \$51) remained in trust.

5 Short-term investments

In January 2016, the Hospital purchased a two-year redeemable guaranteed investment certificate (GIC) with an effective interest rate of 1.7%. Interest is paid annually on the anniversary date. In January 2018, the GIC fully matured and was redeemed.

6 Accounts receivable

	2018 \$	2017 \$
MoHLTC	442	395
Insurers and patients	10,347	9,404
Foundations	1,905	3,784
Other	11,316	6,574
	<u>24,010</u>	<u>20,157</u>
Provision for uncollectible accounts	(1,637)	(1,547)
	<u>22,373</u>	<u>18,610</u>

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

7 Other long-term assets

	2018 \$	2017 \$
Healthcare Insurance Reciprocal of Canada (HIROC) deposits (note 18)	1,796	966
Other	444	613
	<u>2,240</u>	<u>1,579</u>

8 Capital assets

	2018						2017	
	Cost - Beginning of year \$	Additions/ transfers \$	Cost - End of year \$	Accumulated amortization - Beginning of year \$	Amortization expense/ transfers \$	Accumulated amortization - End of year \$	Net \$	Net \$
Land and land improvements	10,726	7	10,733	4,190	58	4,248	6,485	6,536
Buildings and building service equipment	705,673	9,261	714,934	245,050	20,545	265,595	449,339	460,623
Furniture and equipment	274,022	20,339	294,361	209,833	10,708	220,541	73,820	64,189
Construction-in- progress	20,271	9,931	30,202	-	-	-	30,202	20,271
	<u>1,010,692</u>	<u>39,538</u>	<u>1,050,230</u>	<u>459,073</u>	<u>31,311</u>	<u>490,384</u>	<u>559,846</u>	<u>551,619</u>

9 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

	2018 \$	2017 \$
Contributions received for capital purposes - current year		
MoHLTC - redevelopment	10,589	2,945
Foundation - redevelopment	1,365	1,471
Transfer to long-term	<u>(4,963)</u>	<u>(2,637)</u>
Net increase for the year	6,991	1,779
Balance - Beginning of year	<u>10,568</u>	<u>8,789</u>
Balance - End of year	<u>17,559</u>	<u>10,568</u>

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Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

Long-term

	2018 \$	2017 \$
Contributions received for capital purposes - current year		
Foundations - redevelopment	-	2,000
Foundations - other	1,787	(198)
Other	4,377	5,702
Transfer from short-term	4,963	2,637
Net increase for the year before integration	11,127	10,141
Net effect of integration (note 3)	-	73,963
Less: Amortization	(21,260)	(19,188)
Net (decrease) increase for the year	(10,133)	64,916
Balance - Beginning of year	408,545	343,629
Balance - End of year	398,412	408,545

10 Long-term debt

	2018 \$	2017 \$
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)	10,584	11,426
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	1,974	2,585
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	10,423	10,866
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 (2017 - \$1,786)	18,142	18,672
	41,123	43,549
Less: Amounts due within one year	(2,617)	(2,432)
	38,506	41,117

Interest expense on long-term debt was \$1,854 (2017 - \$1,936). Interest paid during the year amounted to \$2,449 (2017 - \$2,585).

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

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

	\$
2019	2,617
2020	2,812
2021	3,072
2022	2,574
2023	2,797
Thereafter	27,251
	<hr/>
	41,123
	<hr/>

11 Employee future benefits

The Hospital provides certain post-employment benefits to some of its employees. The most recent actuarial valuation for the Hospital, excluding APH, was performed on April 1, 2015, and for APH was performed on November 30, 2016.

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

	2018 \$	2017 \$
Employee future benefit liability		
Balance - Beginning of year	19,420	14,750
Net effect of integration (note 3)	-	3,846
Employer current service cost	1,259	1,072
Amortization of actuarial losses	140	119
Interest cost	709	581
Benefits paid	(1,108)	(948)
	<hr/>	<hr/>
Balance - End of year	20,420	19,420
Short-term portion included in accrued liabilities	1,157	883
Long-term portion	19,263	18,537
	<hr/>	<hr/>
	20,420	19,420
	<hr/>	<hr/>
Reconciliation of accrued benefit obligation		
Accrued benefit obligation	22,011	20,928
Unamortized experience losses	(1,591)	(1,508)
	<hr/>	<hr/>
	20,420	19,420
	<hr/>	<hr/>

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

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

	2018 Lakeridge Health, excluding APH	2018 APH Only	2017 Lakeridge Health, excluding APH	2017 APH Only
Discount rate to determine accrued benefit obligation	3.20%	3.20%	3.25%	3.00%
Dental cost increases	3.00%	3.00%	3.00%	3.00%
Extended health-care cost escalations, decreasing by 0.25% per annum to an ultimate rate of 4.50% in 2020 and thereafter	6.75%	6.25%	6.75%	6.25%
Expected average remaining service life of employees	15	14	15	14

12 Other long-term liabilities

	2018 \$	2017 \$
Fair value adjustment in respect of derivative liability	1,816	2,699
HIROC liability (note 18)	1,095	932
Other	507	450
	<u>3,418</u>	<u>4,081</u>

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, 2018 is \$1,816 (2017 - \$2,699). The change in fair value during the year of \$883 (2017 - \$802) is recorded in the statement of remeasurement gains.

13 Net assets invested in capital assets

	2018 \$	2017 \$
Capital assets (note 8)	559,846	551,619
Less: Amounts funded by		
Deferred capital contributions (note 9)	(398,412)	(408,545)
Long-term debt (note 10)	<u>(41,123)</u>	<u>(43,549)</u>

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

	120,311	99,525
14 Internally restricted		

The Hospital has restricted \$170 (2017 - \$170) for major capital refurbishment of the parking garage.

The Hospital has also restricted \$68 (2017 - \$68) for the replacement of specialized cancer related equipment at the McLaughlin Durham Regional Cancer Centre.

15 Net change in non-cash operating items

	2018 \$	2017 \$
Decrease (increase) in assets		
Accounts receivable	(3,763)	2,957
Inventories	(221)	(4)
Prepaid expenses	2	155
Other long-term assets	(661)	(4)
	<u>(4,643)</u>	<u>3,104</u>
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	5,299	(6,407)
Deferred research contributions	143	313
Deferred contributions - other	(414)	514
	<u>5,028</u>	<u>(5,580)</u>
	<u>385</u>	<u>(2,476)</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 of the leases and thereafter are as follows:

	\$
2019	1,614
2020	1,069
2021	466
2022	449
2023	356
Thereafter	<u>3,653</u>
	<u>7,607</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

Lakeridge Health

Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

Hospital amount to \$24,830 (2017 - \$20,724) and are recorded as compensation and benefits. The most recent actuarial valuation of the plan as at December 31, 2017 disclosed total going concern pension obligations of \$59,602 in respect of service accrued to December 31, 2017 and a smoothed value of net assets of \$72,803 determined at the same date.

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, 2018 and March 31, 2017.

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(in thousands of dollars)

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 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, 2018, the Hospital has recorded legal expenses of \$1,273 (2017 - \$607) based on the assessment of the actuary engaged by HML, which have been included in the statement of operations. As at March 31, 2018, the deposit balance was \$2,349 (2017 - \$1,546), of which \$1,796 (2017 - \$966) is not expected to be used within one year and is therefore disclosed as a long-term asset (note 7), and the total liability was estimated to be \$1,873 (2017 - \$1,198), of which \$1,095 (2017 - \$932) 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, 80% (2017 - 86%) 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.

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(in thousands of dollars)

	2018				
	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	86,054	12,056	-	-	98,110
Long-term debt	2,386	2,406	18,529	33,632	56,953
Other long-term liabilities	-	-	3,418	-	3,418
	88,440	14,462	21,947	33,632	158,481
	2017				
	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	79,897	12,640	-	-	92,537
Long-term debt	2,357	2,376	18,933	48,173	71,839
Other long-term liabilities	-	-	4,081	-	4,081
	82,254	15,016	23,014	48,173	168,457

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.

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Notes to Financial Statements

March 31, 2018

(in thousands of dollars)

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

	2018 \$	2017 \$
Ajax-Pickering Hospital Foundation	8	2
Lakeridge Health Foundation	1,707	1,497
The Memorial Hospital Foundation - Bowmanville	184	273
Port Perry Hospital Foundation	6	2,012
	<hr/>	<hr/>
	1,905	3,784

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.

