

Financial statements

March 31, 2023

Independent auditor's report

To the Board of Directors of
Peterborough Regional Health Centre

Opinion

We have audited the financial statements of **Peterborough Regional Health Centre** [the "Health Centre"], which comprise the statement of financial position as at March 31, 2023, and the statement of operations, statement of changes in net assets, statement of remeasurement gains and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Health Centre 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 Health Centre 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 the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Health Centre'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 Health Centre or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Health Centre'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 Health Centre'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 Health Centre'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 Health Centre 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.

Ernst & Young LLP

Toronto, Canada
May 30, 2023

Chartered Professional Accountants
Licensed Public Accountants



Peterborough Regional Health Centre

Statement of financial position

[Expressed in thousands of dollars]

As at March 31

	2023	2022
	\$	\$
Assets		
Current		
Cash [notes 3 and 5]	75,181	98,132
Short-term investments [notes 4 and 5]	25,738	—
Accounts receivable [notes 5, 6 and 15[c]]	20,354	24,539
Inventories	3,888	3,540
Prepaid expenses	4,849	4,175
Total current assets	130,010	130,386
Investments [notes 4 and 5]	67,980	69,226
Capital assets, net [note 7]	283,922	295,523
	481,912	495,135
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities [notes 5, 9 and 14[c]]	86,122	99,812
Current portion of long-term debt [notes 5 and 8]	3,549	3,370
Deferred contributions	38	504
Total current liabilities	89,709	103,686
Post-employment benefits [note 9]	21,290	18,640
Interest rate swap [notes 5 and 10]	60	508
Long-term debt [notes 5 and 8]	5,027	8,576
Deferred capital contributions [notes 11 and 15[a]]	159,807	163,981
Total liabilities	275,893	295,391
Contingencies [note 14]		
Net assets		
Unrestricted	17,612	4,416
Internally restricted [note 12]	185,539	189,596
Accumulated remeasurement gains	2,868	5,732
Total net assets	206,019	199,744
	481,912	495,135

See accompanying notes

On behalf of the Board:



Director



Director

Peterborough Regional Health Centre

Statement of operations

[Expressed in thousands of dollars]

Year ended March 31

	2023	2022
	\$	\$
Revenue		
Ministry of Health	310,791	294,475
Ontario Health – Cancer Care Ontario Division	42,691	41,327
Other insurers and self pay	6,244	6,826
Other revenue [note 15[b]]	16,093	15,552
Amortization of deferred contributions related to capital assets – equipment	3,556	2,884
	379,375	361,064
Expenses		
Salaries, wages and benefits	235,866	241,362
Drugs and medical supplies	55,064	49,730
Supplies and other expenses	62,533	56,188
Amortization of capital assets – equipment	14,403	11,588
	367,866	358,868
Excess of revenue over expenses before the following	11,509	2,196
Amortization of capital assets – building	(7,751)	(7,311)
Amortization of deferred contributions related to capital assets – building	5,381	5,432
Excess of revenue over expenses for the year	9,139	317

See accompanying notes

Peterborough Regional Health Centre

Statement of changes in net assets

[Expressed in thousands of dollars]

Year ended March 31

	2023		2022
	Unrestricted	Internally restricted	Total
	\$	\$	\$
Balance, beginning of year	4,416	189,596	194,012
Excess of revenue over expenses for the year	9,139	—	9,139
Interfund transfers <i>[note 12]</i>	4,057	(4,057)	—
Balance, end of year	17,612	185,539	203,151

See accompanying notes

Peterborough Regional Health Centre

Statement of remeasurement gains

[Expressed in thousands of dollars]

Year ended March 31

	2023	2022
	\$	\$
Accumulated remeasurement gains, beginning of year	5,732	5,574
Unrealized gains attributable to interest rate swap <i>[note 10]</i>	448	908
Unrealized losses attributable to investments	(3,312)	(750)
Accumulated remeasurement gains, end of year	2,868	5,732

See accompanying notes

Peterborough Regional Health Centre

Statement of cash flows

[Expressed in thousands of dollars]

Year ended March 31

	2023 \$	2022 \$
Operating activities		
Excess of revenue over expenses for the year	9,139	317
Add (deduct) items not involving cash		
Amortization of capital assets	22,154	18,899
Amortization of deferred contributions related to capital assets	(8,937)	(8,316)
	<u>22,356</u>	<u>10,900</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	4,185	(1,905)
Inventories	(348)	(194)
Prepaid expenses	(674)	509
Accounts payable and accrued liabilities	(13,690)	21,718
Deferred contributions	(466)	(937)
Post-employment benefits	2,650	3,013
Cash provided by operating activities	<u>14,013</u>	<u>33,104</u>
Investing activities		
Additions to investments	(27,804)	—
Disposal of investments	—	61,818
Cash provided by (used in) investing activities	<u>(27,804)</u>	<u>61,818</u>
Capital activities		
Deferred capital contributions received	4,763	4,591
Net additions to capital assets	(10,553)	(50,980)
Cash used in capital activities	<u>(5,790)</u>	<u>(46,389)</u>
Financing activities		
Repayment of long-term debt	(3,370)	(3,200)
Cash used in financing activities	<u>(3,370)</u>	<u>(3,200)</u>
Net increase (decrease) in cash during the year	<u>(22,951)</u>	<u>45,333</u>
Cash, beginning of year	98,132	52,799
Cash, end of year	<u>75,181</u>	<u>98,132</u>
Supplemental cash flow information		
Interest received	2,774	1,041
Interest paid	612	778

See accompanying notes

Peterborough Regional Health Centre

Notes to financial statements

[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

1. Nature of organization

Peterborough Regional Health Centre [the "Health Centre"] is an acute care, regional hospital providing high-quality patient care to the patients and families of the City of Peterborough and surrounding regions. The Health Centre is a registered charity under the Income Tax Act, and accordingly is exempt from income taxes, provided certain requirements of the *Income Tax Act* (Canada) are met.

Under the *Health Insurance Act* (Ontario) and the regulations thereunder, the Health Centre is funded primarily by the Province of Ontario in accordance with funding arrangements established by the Ontario Ministry of Health ["MOH"] and Ontario Health ["OH"]. The Board of Directors recognizes the Health Centre's ongoing dependency on the MOH and OH as the primary funding sources for the Health Centre's operating activities.

2. Summary of significant accounting policies

Basis of presentation

The financial statements of the Health Centre have been prepared in accordance with Canadian public sector accounting standards, including the 4200 series of standards for government not-for-profit organizations, as issued by the Public Sector Accounting Board. Accordingly, these financial statements have been prepared based on the significant accounting policies summarized below:

Revenue recognition

The Health Centre follows the deferral method of accounting for contributions, which include donations and government grants.

Grants and funding authorized by the MOH/OH as of the end of the fiscal year, and for which a specific purpose or use has been identified, are recognized as revenue when there is reasonable assurance that the Health Centre has complied with, and will continue to comply with, all conditions necessary to earn the funds. The recognition of revenue associated with such funds requires management to make estimates and assumptions based on the best information available at the time of preparation of these financial statements. Final funding approved is subject to the funders' reconciliation process and could differ from these estimates.

Funds for which revenue has been earned but not received at the end of the fiscal year are accrued as receivable. Where a portion of the funding received relates to a future period, it is deferred and recognized in that subsequent fiscal year, unless the funds are to be repaid, at which time the amounts are reclassified as accounts payable and accrued liabilities. These financial statements reflect agreed arrangements approved by the MOH and OH with respect to the year ended March 31, 2023.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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Revenue from ancillary [e.g., parking and food service commissions] and other patient services is recognized when the goods have been sold or when the services are provided.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets [including interest earned that is explicitly required to be used for the purchase of capital assets] are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets.

Investment income (loss) is recognized as revenue when earned, except to the extent it relates to deferred contributions, in which case it is added to the deferred contributions balance. Investment income (loss) consists of interest, dividends, and realized gains and losses, net of related fees. Unrealized gains and losses are recorded in the statement of remeasurement gains.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit. Cash and cash equivalents held for investing rather than liquidity purposes are classified as investments.

Inventories

Pharmacy inventories are valued using the weighted average cost method. All other inventories are valued at the lower of cost and net realizable value, which is considered to be current replacement cost, on a first-in, first-out basis. Reviews for obsolete, damaged and expired items are done on a regular basis, and any items that are found to be obsolete, damaged or expired are written off when such determination is made.

Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair value at the date of contribution.

Capital assets are amortized on a straight-line basis over their respective useful life and calculated as follows:

Land improvements	10 years
Buildings	20 to 40 years
Equipment and software	3 to 20 years

Construction-in-progress and assets that relate to pre-acquisition and pre-construction costs are not amortized until the asset is available for productive use.

When a capital asset no longer has any long-term service potential to the Health Centre, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

Peterborough Regional Health Centre

Notes to financial statements

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Retirement and post-employment benefits

The Health Centre provides post-employment benefits to certain employee groups. These benefits include health, dental and life insurance. The Health Centre has adopted the following policies with respect to accounting for these employee benefits:

- [i] The costs of post-employment future benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from the changes in estimates and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight-line basis. Plan amendments, including past service costs are recognized as an expense in the period of the plan amendment.
- [ii] The discount rate used to determine the accrued benefit obligation was determined based on the Ontario provincial yield curve and a spread [note 9].
- [iii] The Health Centre applies defined contribution accounting to its multi-employer defined benefit plan for which the Health Centre has insufficient information to apply defined benefit plan accounting [note 13].

Contributed services

The Health Centre is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Health Centre and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

Management estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The principal estimates used in the preparation of these financial statements are the determination of the liability for post-employment benefits, the estimated useful life of capital assets, the fair value of derivative financial instruments, deferred contributions and accrued liabilities. Actual results could differ from management's best estimates, as additional information becomes available in the future.

The amount of revenue recognized from the MOH and OH requires a number of estimates. The Health Centre has entered into a number of accountability agreements with the MOH and OH that set out the rights and obligations of the two parties in respect of funding provided to the Health Centre for the year ended March 31, 2023. These accountability agreements set out certain performance standards and obligations that establish acceptable results for the Health Centre's performance in a number of areas, such as total margin, liquidity and operating volumes.

If the Health Centre does not meet its performance standards or obligations, the MOH and OH have the right to adjust funding received by the Health Centre. The MOH and OH are not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the financial statements, the amount of MOH and OH funding received during the year may be increased or decreased subsequent to year-end. The amount of revenue recognized in these financial statements represents management's best estimate of amounts that have been earned during the year.

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Notes to financial statements

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Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or amortized cost. The Health Centre determines the classification of its financial instruments at initial recognition.

Investments reported at fair value consist of equity instruments that are quoted in an active market as well as investments in pooled funds, derivative contracts and any other investments where the investments are managed on a fair value basis, and the fair value option is elected. Transaction costs are recognized in the statement of operations in the period during which they are incurred. Investments at fair value are remeasured at their fair value at the end of each reporting period. Any revaluation gains and losses are recognized in the statement of remeasurement gains and are cumulatively reclassified to the statement of operations upon disposal or settlement.

Derivatives are measured at fair value on the statement of financial position, with the changes in value recognized in the statement of remeasurement gains. The Health Centre does not engage in derivative trading or speculative activities.

Investments in securities not designated to be measured at fair value are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

All investment transactions are recorded on a trade date basis.

Adoption of new accounting standard

Effective April 1, 2022, the Health Centre adopted the new accounting standard PS 3280, *Asset Retirement Obligations*, issued by the Canadian Public Sector Accounting Board. This standard provides guidance over the reporting of legal obligations associated with the retirement of capital assets that are either currently in productive use or no longer in productive use and controlled by the entity, and the costs associated with the retirement of these assets.

The Centre adopted the standard using the modified retroactive approach, which uses assumptions and discount rates as of April 1, 2022. Under this approach, any asset retirement obligation liabilities and the related increase to capital assets are measured as of the date the legal obligations were incurred, adjusted for the accumulated accretion and amortization as of that date. The adoption of the new accounting standard PS 3280, *Asset Retirement Obligations* did not have any impact on the Health Centre's financial statements.

3. Cash

The Health Centre's bank accounts are held at a Canadian chartered bank earning interest at prime less 1.60% for balances equal to or under \$110,000.

As at March 31, 2023, the Health Centre has an operating line of credit with a limit of \$6,000. The line of credit bears interest at prime. No amounts have been drawn on this facility as at March 31, 2023 or 2022.

Peterborough Regional Health Centre

Notes to financial statements

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March 31, 2023

4. Investments

Investments, which are held by external investment managers, are measured at fair value and consist of the following:

	2023	2022
	\$	\$
Cash and cash equivalents	29,933	2,120
Fixed income	38,748	38,733
Canadian equities	11,705	16,207
Foreign equities	13,332	12,166
	93,718	69,226
Less short-term investments	25,738	—
	67,980	69,226

As at March 31, 2023, fixed income investments have an average term to maturity of 2.75 years [2022 – 2.3 years] and an average yield of 3.78% [2022 – 2.89%] based on market values.

5. Financial instruments and risk management

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – Fair value measurements are those derived from quoted prices [unadjusted] in active markets for identical assets or liabilities using the last bid price;
- Level 2 – Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly [i.e., as prices] or indirectly [i.e., derived from prices]; and
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Peterborough Regional Health Centre

Notes to financial statements

[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

The following table presents the financial instruments recorded at fair value in the statement of financial position, classified using the fair value hierarchy described above:

	2023			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash	75,181	—	—	75,181
Investments	93,718	—	—	93,718
Interest rate swap	—	—	(60)	(60)
	168,899	—	(60)	168,839

	2022			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Cash	98,132	—	—	98,132
Investments	69,226	—	—	69,226
Interest rate swap	—	—	(508)	(508)
	167,358	—	(508)	166,850

During the years ended March 31, 2023 and 2022, there were no transfers of assets between Level 1, Level 2 and Level 3.

Financial risks

The Health Centre, through its exposure to financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The Health Centre has policies that establish thresholds on concentration of investment holdings, liquidity risk, minimum credit ratings and varying terms of the securities held.

[a] Credit risk

Credit risk is the risk of financial loss to the Health Centre if a debtor fails to make payments of interest and principal when due. The Health Centre is exposed to this risk relating to its cash and accounts receivable. The Health Centre holds its cash accounts with Canadian chartered banks that are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Health Centre's cash accounts are insured up to \$200 [2022 – \$200].

Accounts receivable are primarily due from the MOH/OH and patients. Credit risk is mitigated by the financial solvency of the provincial government and the highly diversified nature of the patient population.

Peterborough Regional Health Centre

Notes to financial statements

[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

The Health Centre measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Health Centre's historical experience regarding collections. The amounts outstanding at year-end were as follows:

	Total	Current	Past due		
			31–60 days	61–90 days	Over 90 days
	\$	\$	\$	\$	\$
OHIP	3,129	1,367	677	68	1,017
MOH	5,265	5,088	77	100	—
OH	4,080	4,003	—	—	77
Patient services	5,226	959	680	468	3,119
Foundation	754	754	—	—	—
Other	4,928	2,802	—	—	2,126
Gross receivables	23,382	14,973	1,434	636	6,339
Less impairment allowance	3,028	186	113	37	2,692
Net receivables	20,354	14,787	1,321	599	3,647

The amounts aged greater than 90 days owing from patients that have not had a corresponding impairment allowance setup against them are collectible based on the Health Centre's past experience. Management has reviewed the individual balances based on the credit quality of the debtors and their past payment history.

There have been no significant changes from the previous year in the policies, procedures and methods used to measure credit risk.

[b] Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, equity risk, and foreign currency risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Health Centre is exposed to this risk through its demand term loan. The Health Centre mitigates interest rate risk on its demand term loan through a derivative financial instrument that exchanges the variable rate inherent in the demand loan for a fixed rate [note 10]. Therefore, fluctuations in market interest rates would not impact future cash flows and operations related to the demand term loan.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

The Health Centre is also exposed to this risk through its investment in bonds. As at March 31, 2023, the impact on the accumulated remeasurement gains of a 1 % absolute change in bond yields on investments is \$641 [2022 – \$663].

Peterborough Regional Health Centre

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[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

Equity risk

Equity risk is the risk that the fair value of equity investments will fluctuate because of changes in market prices [other than those arising from foreign currency risk or interest rate risk], whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. As at March 31, 2023, the impact on accumulated remeasurement gains of a 1 % absolute change in the fair value of the investments that are exposed to equity risk would be \$250 [2022 – \$284].

Foreign currency risk

Foreign currency exposure arises from holdings of foreign currency denominated investments. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments.

As at March 31, 2023, the impact on accumulated remeasurement gains of a 1% absolute change in the fair value of the investments that are exposed to foreign currency risk would be \$132 [2022 – \$120].

[c] Liquidity risk

Liquidity risk is the risk that the Health Centre will not be able to meet all cash outflow obligations as they come due. The Health Centre mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining an available line of credit if unexpected cash outflows arise. The following table sets out the contractual maturities [representing undiscounted contractual cash-flows of financial liabilities].

	2023				
	Total \$	6 months \$	6 months to 1 year \$	1–5 years \$	>5 years \$
Accounts payable and accrued liabilities	86,122	81,050	5,072	—	—
Long-term debt	8,576	1,751	1,798	5,027	—
	94,698	82,801	6,870	5,027	—
	2022				
	Total \$	6 months \$	6 months to 1 year \$	1–5 years \$	>5 years \$
Accounts payable and accrued liabilities	99,812	94,904	4,908	—	—
Long-term debt	11,946	1,663	1,707	8,576	—
	111,758	96,567	6,615	8,576	—

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Peterborough Regional Health Centre

Notes to financial statements

[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

6. Accounts receivable

Accounts receivable consist of the following:

	2023 \$	2022 \$
OHIP	3,129	128
MOH	5,265	10,465
OH	4,080	3,141
Patient services	2,198	5,584
Foundation [note 15]	754	391
Other	4,928	4,830
	20,354	24,539

7. Capital assets

Capital assets consist of the following:

	2023		2022	
	Cost \$	Accumulated amortization \$	Net book value \$	Net book value \$
Land	3,936	—	3,936	3,936
Land improvements	9,721	8,628	1,093	1,494
Buildings	278,279	90,227	188,052	192,626
Equipment and software	203,493	116,201	87,292	86,350
Construction-in-progress	3,549	—	3,549	11,117
	498,978	215,056	283,922	295,523

For the year ended March 31, 2023, capital assets disposed of totalled \$1,856 [2022 – \$256].

Peterborough Regional Health Centre

Notes to financial statements

[Expressed in thousands of dollars, except where otherwise noted]

March 31, 2023

8. Long-term debt

Long-term debt consists of the following:

	2023 \$	2022 \$
Demand term loan, interest at a variable rate based on Bankers' Acceptance rates, repayable in monthly blended payments of \$326 maturing July 2025. An interest rate swap has been initiated [note 10] that modifies the floating interest rate to a fixed rate of 5.99%.	8,576	11,946
Less current portion	3,549	3,370
	<u>5,027</u>	<u>8,576</u>

Regular principal payments required on the demand term loan are due as follows:

	\$
2024	3,549
2025	3,738
2026	1,289
	<u>8,576</u>

As part of the loan agreement, the lender has restricted the Health Centre from assuming debt from other lenders with the exception of the line of credit detailed in note 3, and any other amounts as expressly permitted by the lender.

9. Post-employment benefits

The Health Centre records estimated liabilities for accrued employee benefits in the year they are earned. These post-employment benefit accruals are actuarially determined. The accrued non-pension benefit liability is calculated as follows:

	2023 \$	2022 \$
Accrued non-pension benefit liability, beginning of year	19,160	16,167
Benefit expense	3,563	3,710
Funding contributions	(933)	(717)
Accrued non-pension benefit liability, end of year	<u>21,790</u>	<u>19,160</u>

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The non-pension benefit expense for the year is calculated as follows:

	2023 \$	2022 \$
Accrual for services	2,023	2,189
Interest on accrued benefits	960	797
Amortization of actuarial losses	580	724
	3,563	3,710

The accrued non-pension benefit liability consists of the following:

	2023 \$	2022 \$
Accrued non-pension benefit liability	24,699	23,112
Unamortized experience losses	(2,909)	(3,952)
Accrued non-pension benefit liability at year-end	21,790	19,160
Less current portion included in accounts payable and accrued liabilities	500	520
	21,290	18,640

The accrued benefit obligations for employee future benefit plans as at March 31, 2023 are based on actuarial valuations for accounting purposes as at March 31, 2022, with estimates to March 31, 2023. The economic assumptions used in these valuations are the Health Centre's best estimates of expected rates as follows:

	2023	2022
Expected average remaining service life of retirement	15.0 years	15.0 years
Discount rate – accrued benefit obligation	4.04%	3.89%
Discount rate – benefit cost	3.89%	3.21%
Dental benefit cost escalation	4.93% per annum	4.71% per annum
Extended healthcare cost escalation	4.48% per annum	4.26% per annum

10. Interest rate swap

The Health Centre has entered into an interest rate swap agreement that fixes the long-term interest rate associated with borrowing related to the construction of the Health Centre. Under this agreement, the Health Centre pays interest on the notional principal at a fixed rate and receives interest on the same notional principal at a variable rate based on Bankers' Acceptance rates. There is no exposure to loss on the notional principal amounts since the amounts are netted by agreement; however, as interest rates fluctuate, the exposure to interest expense rises and falls.

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Under the agreement, the Health Centre pays a fixed rate of 5.99% on the notional principal. As at March 31, 2023, the notional principal of this agreement was \$8,576 [2022 – \$11,946] and the notional principal is being reduced monthly in a systematic manner until the contract matures on July 1, 2025.

As at March 31, 2023, the fair value of the remaining interest rate swap is a liability of \$60 [2022 – \$508]. The change in fair value during the year of \$448 [2022 – \$908] is recorded in the statement of remeasurement gains.

11. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of contributions is recorded as revenue in the statement of operations.

	2023 \$	2022 \$
Balance, beginning of year	163,981	167,706
Additional net contributions received [note 15]	4,763	4,591
Amounts amortized to revenue during the year	(8,937)	(8,316)
Balance, end of year	159,807	163,981

12. Internally restricted net assets

Internally restricted net assets consist of the following:

	2023 \$	2022 \$
Internally funded capital assets [note 12[a]]	115,539	119,596
Future capital purchases [note 12[b]]	70,000	70,000
	185,539	189,596

The changes in internally restricted net assets consist of the following:

	2023 \$	2022 \$
Internally funded capital assets [note 12[a]]	(4,057)	39,006
Future capital purchases [note 12[b]]	—	(50,000)
	(4,057)	(10,994)

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[a] Internally funded capital assets consist of the following:

	2023 \$	2022 \$
Capital assets	283,922	295,523
Deferred contributions	(159,807)	(163,981)
Demand term loan	(8,576)	(11,946)
	115,539	119,596

The change in internally funded capital assets consists of the following:

	2023 \$	2022 \$
Net additions to capital assets	10,553	50,980
Amortization of capital assets	(22,154)	(18,899)
Deferred capital contributions received	(4,763)	(4,591)
Amortization of deferred contributions related to tangible capital assets, net	8,937	8,316
Repayment of long-term debt	3,370	3,200
	(4,057)	39,006

[b] In the prior year, the Board of Directors set aside \$70,000 for future capital purchases. This amount remains unchanged for the current year.

13. Pension plan

All full-time and certain part-time employees of the Health Centre are members of the Healthcare of Ontario Pension Plan ["HOOPP" or the "Plan"], which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association.

The most recent actuarial valuation of the Plan as at December 31, 2022 indicates the Plan is 117% funded. HOOPP's statement of financial position as at December 31, 2022 disclosed total pension obligations of \$92.7 billion with net assets at that date of \$103.7 billion, indicating a surplus of \$11 billion. Because the Plan is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario Hospital Association members and their employees. As a result, the Health Centre does not recognize any share of the Plan surplus or deficit.

Employer contributions made to the Plan during the year by the Health Centre are reflected in the statement of operations and amounted to \$13,777 [2022 – \$13,899].

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March 31, 2023

14. Contingencies

- [a] Due to the nature of the Health Centre's operations, the Health Centre is periodically subject to litigation. With respect to claims as at March 31, 2023, it is management's position that the Health Centre has valid defences and appropriate insurance coverage to offset the cost of unfavourable settlements, if any, that may arise from such claims.
- [b] A group of healthcare institutions, including the Health Centre, are members of the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the liability insurance risks of its members. All members pay annual deposit premiums, which are actuarially determined and are subject to further assessment for losses, if any, experienced by the pool for the years in which they were members. As at March 31, 2023, no assessments have been received.
- [c] In 2019, the Government of Ontario passed Bill 124 requiring all public sector salary increases to be limited to 1% per year for a three-year period. During the current fiscal year, Bill 124 was struck down by the Ontario Superior Court. Union contracts included monetary reopening clauses, which the unions are now exercising. Given the expectation of retroactive salary adjustments, the Health Centre has included an accrual in accounts payable and accrued liabilities as at March 31, 2023.

15. Related party transactions

Peterborough Regional Health Centre Foundation

The Health Centre has the ability to appoint two members to the Peterborough Regional Health Centre Foundation [the "Foundation"] Board of Directors: [i] the Chair or designate, and [ii] the Health Centre CEO non-voting/ex officio. The Foundation was established to raise and manage funds for the benefit of the Health Centre. The Foundation is incorporated as a public foundation under the *Corporations Act* (Ontario) and is a registered charity under the *Income Tax Act* (Canada).

The net assets and results from operations of the Foundation are not included in the financial statements of the Health Centre.

Related party transactions during the year not separately disclosed in the financial statements include the following:

- [a] An amount of \$4,375 [2022 – \$1,890] has been received from the Foundation and recorded as deferred capital contributions related to capital assets [note 11].
- [b] An amount of \$1,748 [2022 – \$1,139] has been received from the Foundation and recorded as revenue to match the related operating expenditures incurred by the Health Centre on behalf of the Foundation.
- [c] Included in accounts receivable is \$754 [2022 – \$391] owing from the Foundation for operating costs and donations.

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16. Pandemic response

The Health Centre has tracked expenditures related to its pandemic response and has applied for and received reimbursement of hospital-incurred expenditures. The Health Centre estimates pandemic-related expenditures incurred during the year ended March 31, 2023 were \$1,682 [2022 – \$6,810].

Due to the pandemic, a number of funding letters and their associated clinical initiatives were unable to be achieved. As at March 31, 2022, the Health Centre carried forward Infection Prevention and Control funding of \$301, Peterborough Ontario Health Teams funding of \$173, and Health Infrastructure Renewal Funding of \$11. As at March 31, 2023, the Health Centre has not received approval from MOH/OH to carry over any unspent amounts to future years.